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LACKING SEVERAL ISSUES

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News Release | Communiqué

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JANUARY 15, 1985

PR85/01

FRAMEWORK FOR ENERGY POLICY PROPOSED

OTTAWA -- The Economic Council of Canada is proposing a new framework energy policy as a key step to ensuring long-term growth.

In a major energy report released today, the Council recommends a more flexible energy strategy which is more sensitive to changes in demand and supply. That includes new pricing and taxation policies and other changes.

As part of this strategy, the Council urges federal and provincial governments to establish clear principles for revenue-sharing and management of resources.

The report - Connections: An Energy Strategy for the Future - also recommends that a Council of Federal and Provincial Energy Ministers be set up to improve co-operation.

Other fundamental issues such as Canadian ownership of petroleum companies and security of oil supplies are discussed as well in the Council document.

The energy report closely examines the oil and gas industries, electric power, energy conservation, and alternative forms of energy. It was prepared after more than three years' research and wide consultation, particularly with industry and government.

The basic aim of the energy report is to devise an energy strategy that will make the best and most efficient use of the nation's resources and energy potential.

Energy resources are not being used as efficiently as they should, largely because of federal and provincial policies, says the Council. That includes pricing, taxation, regulation, and subsidization of oil, gas, electricity and alternative energy sources.

Rapidly rising world oil prices in the last 10 years have helped create policy problems in the Canadian oil and gas industries.

Interim steps can be taken to deal with some of these problems, but a coherent and comprehensive energy policy depends on consensus between federal and provincial governments, the report says.

"A prerequisite for the achievement of such a policy is the establishment by mutual consent of a framework both for the appropriate sharing of costs and revenues and for the efficient management of resources."

The economic benefits of resources owned by either federal or provincial governments should be shared by all Canadians, the Council says. The question of sharing has centred mainly on oil and gas in recent years, but it applies to all resources.

The federal government now provides payments to poorer provinces under the Equalization Program, but Ottawa has no systematic access to provincial natural resource revenues to fund these payments.

Federal and provincial governments should work out principles for sharing government revenues from all natural resources as part of the next round of discussions on federal-provincial fiscal arrangements, the report recommends.

A revenue-sharing agreement would have to be worked out gradually over a period of time, beginning with the richest resources and then including others.

Provinces should have the right to manage and collect surplus revenues from development of their resources, the report suggests. But the federal government should have an agreed share of these funds.

On the other hand, the federal government should have revenues gained from federal lands with neighbouring provinces or territories.

In any case, Ottawa and the provinces should make clear who is responsible for what in managing resources, the Council says.

The Council of Federal and Provincial Energy Ministers, proposed in the report, should meet at least annually to improve co-operation.

As for the controversial issue of Canadian ownership of petroleum companies, the Council says Ottawa could provide incentives, such as tax credits, to Canadians investing in shares in these firms.

More emphasis should be put on this approach than through borrowing to buy out foreign firms or through heavy subsidizing of exploration and development. Borrowing, often from foreign lenders, has placed a heavy burden on the Canadian economy in recent years.

The report says that if Ottawa feels there is a need for added measures to guard against oil shortages - particularly for the eastern provinces - a modest storage program could be introduced. Recently closed refineries in eastern Canada could be used as storage centres.

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PR85/02

COUNCIL URGES PRICE DEREGULATION

OTTAWA -- Deregulation of oil and gas prices in Canada and a more efficient tax and incentive system would significantly increase oil and gas production, says the Economic Council of Canada.

The Council says in an energy report, made public today, that its analysis shows allowing the domestic oil price to rise to world levels, gradually freeing domestic gas prices and changing federal energy taxes would help stimulate oil and gas exploration, increase natural gas sales, and generally promote other energy projects.

In addition, these developments would contribute to increased production and employment in the economy as a whole without cutting federal or provincial revenues.

The Council pinpoints government policy as a prime reason for production, sales, and exploration problems in the oil and gas industries.

The energy report examines these industries as well as electricity and alternative energy sources in a wide-ranging review. It is the result of three years' research and broad consultation with government and industry representatives.

Among the report's proposals, the Council recommends dropping controls on domestic oil and gas prices, partial regulation of gas exports, altering the gas pipeline tariff system in eastern Canada, modifying the petroleum and gas revenue tax, and making other changes to exploration incentives.

It also concludes that the best bet for oil exploration is in the Western Sedimentary Basin which runs through Alberta, Saskatchewan and the Northwest Territories. Oil companies can find additional conventional oil more economically there than in other parts of the country. There is still much potential for enhanced oil recovery and some oil sands developments in the Western Basin.

The Council's research on frontier oil developments indicates that oil from the MacKenzie Delta-Beaufort Sea and Hibernia fields could eventually be produced economically under the right conditions.

Currently, the report says that, taking into account government taxes and royalties, large companies, on average, have little incentive, on the basis of private costs, to maintain exploration for conventional oil and to bid for new exploration.

The Council notes that the National Energy Board says conventional oil production in the Western Basin is about half used up. But Council studies indicate that new reserves could be added more quickly with the right incentives.

As for natural gas, there are currently excess supplies and there is little incentive to search for new reserves. Even supplies in the Western Basin should be sufficient for some years. But Canadians must still be concerned about developing long-term supplies.

Frontier gas from the MacKenzie Delta-Beaufort sea region, the Arctic Islands, the Scotian Shelf (off Nova Scotia), and Hibernia (off Newfoundland), could make an important contribution by the mid-1990s.

The natural gas market is different from oil because prices are not determined by a world market. Essentially, Canadian gas is tied to a continental North American market where regulations still play a large role.

Under federal-provincial agreements, domestic consumer prices are pegged at 65 per cent of the blended price for oil at the Toronto "city gate." Prices paid to producers are based on the Alberta border price which is largely determined by the Alberta government.

This pricing system has hampered development of the domestic gas market, the Council says. Despite an abundance of gas supplies, prices have been too high to encourage more users to switch to gas.

The Council's proposals to deal with these problems include:

- Raising domestic oil prices to world levels and ending price differences between "old oil" - oil discovered before 1974 - and "new oil." The federal government has recently boosted domestic prices to international levels.

- Lifting controls on domestic natural gas prices to allow producers and buyers time to negotiate new agreements. But partial regulation of exports should continue.

- Suggesting the government consider splitting TransCanada PipeLines Limited into two companies - one that would buy and sell gas and another that would carry the fuel. That would foster more competition.

- Changing the gas pipeline tariff system, particularly in the large eastern zone stretching from Georgian Bay to Quebec City and potentially as far as Halifax. Lower prices would expand markets.

- Eliminating or changing a number of federal taxes on oil and gas production revenues from provincial lands. The petroleum and gas revenue tax (PGRT), should be modified so that it is more a tax on profitability than on company revenues.

- Dropping the PGRT for oil and gas on Canada Lands - areas under federal jurisdiction - and using a royalty to collect revenues from production.

- Replacing grants under the petroleum incentives program with refundable tax credits and continuing moderate federal incentives for exploration on Canada Lands.

- Shifting federal excise taxes on producers or industrial users of oil and gas to the retail from the wholesale level so that the international competitiveness of large domestic industries will not be damaged. The government could use retail taxes to influence consumption, if necessary.

This can all be done without much impact on government revenues.

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PR85/03

POLICY CHANGES RECOMMENDED FOR ELECTRICITY SECTOR

OTTAWA -- The Economic Council of Canada is recommending broad changes for electric utilities, ranging from more systematic regulation to new financial and rate-setting policies.

The Council says in a wide-ranging energy report that there should be regulatory boards in all provinces with a broad mandate to oversee development of the electricity sector. These boards would ensure that all interests get a fair hearing.

The report, released today, also recommends introducing new rates to even out demand. And it proposes an overhaul of the financial structure of utilities so they could eventually function without provincial financial guarantees.

These policies are designed to improve efficiency in the electricity sector, ensure fairness to consumers, and allow provincial governments more leeway in economic development.

A key issue is the low level of electricity rates which the Council says amounts to a subsidy to consumers by provincial governments. This subsidy diverts money from other areas of the economy.

So the Council report recommends that this general subsidization of domestic electricity prices be gradually eliminated over the next decade or so.

Electricity generation now amounts to more than 40 per cent of Canada's domestic oil production. Hyrdoelectric power accounts for about 60 per cent of electricity generating capacity. There are also nuclear, coal and oil-fired generating stations.

Currently, there is a surplus of electricity. Utilities are trying to increase sales in the United States as one way of reducing this oversupply.

The official mandate of most electric utilities in Canada is to price electricity as low as possible locally. Traditionally, profit from export sales has been used to further reduce domestic prices. Provincial governments have used cheap electricity as a tool for economic development.

But the Council says that "artificially low electricity prices lead to overconsumption and to a waste of valuable resources - including capital, which earns a significantly lower rate of return in the electrical sector than in most other areas of Canadian economic activity."

Governments should place greater stress on economic efficiency and seek strategies that are best for the economy as a whole and not only for electricity consumers.

Part of the problem, says the Council, is government policy on the financial structure of utilities.

Public utilities are exempt from federal and provincial taxes, real asset costs are underestimated, governments

guarantee the public debt of power companies, and provincial governments have been setting returns on equity for their utilities that are lower than normal.

These measures can distort the economy, work against energy conservation, encourage over-borrowing, and add to the debt loads of provincial governments.

So the Council recommends governments consider steps to reduce the proportion of debt in the capital structure of utilities over the next 10 years. One way of doing that might be to issue shares to the public.

With this change, utilities might be able to borrow at good interest rates without government guarantees.

Power companies should also introduce gradually a new rate system which would encourage consumers to use electricity in off-peak hours, the report says. That would spread demand more evenly and reduce the need for additional excess generating capacity.

And governments should consider ways of collecting fair revenues from resources used to generate electricity, particularly hydroelectricty, the report says. Water power rentals, royalties, taxes, and dividends are among possible collection methods.

Utilities selling power to the United States should set up subsidiaries to keep account of sales. And provincial governments should consider using the money collected from exports for other purposes than reducing domestic rates.

Prospects for an expanded nuclear industry do not seem good at the moment, says the Council. But the federal government should give sufficient support to the nuclear power industry to keep the CANDU reactor technology alive for at least the next five years. In the interim, there should be a thorough inquiry into the industry to weigh the costs and benefits of future backing.

Public utilities cannot react adequately alone to all the interest groups and their concerns, the report says. There is a need for more thorough regulation by bodies independent of the power companies.

As well as ruling on rates, these regulatory agencies should be allowed to consider the best use of resources in providing electricity.

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PR85/04

BALANCED ENERGY-USE PROGRAM OUTLINED

OTTAWA -- Better pricing, more information for manufacturers and users, and less government intervention could lead to improved and more balanced use of energy resources, says the Economic Council of Canada.

A Council energy report, unveiled today, says that "inadequacies in energy pricing policy" have worked against conservation and certain alternative forms of energy that might have been developed economically. Other government policies have also had an impact.

To deal with these problems, the Council recommends deregulating domestic oil and gas prices, stronger government efforts to inform Canadians about conservation and alternative energy sources, and shifting government financial support from major subsidy programs to demonstration projects.

Canadian experience since the first oil price crisis in 1973 shows that prices and government policy do influence energy demand as well as supply. The oil portion of primary energy demand dropped to 35 per cent in 1983 from 45 per cent in 1973. In the same period, the hydro and nuclear energy share rose to more than 30 per cent from about 25 per cent.

Regionally, oil still accounts for more than 50 per cent of demand in the Atlantic provinces, but in Quebec, Newfoundland, British Columbia and Manitoba, hydro power plays a significant role. Alberta and Saskatchewan rely heavily on natural gas and coal while Ontario has a broader mix including oil, natural gas, hydro and nuclear electricity, and coal.

The oil share of energy consumption in the residential, commercial and industrial sectors has plunged to 26 per cent from 37 per cent in the 1973-82 period. Electricity and natural gas consumption has risen proportionately.

But the transportation industry still depends almost totally on oil products.

Council analysis indicates that price changes raise or lower demand more significantly in the commercial and industrial area than in the residential sector. Heat and light are necessities for households.

"The market is in perpetual transition, moving with changes in relative prices, incomes, technology and other market factors," the report says.

Using economic simulations of what may happen to energy demand by the year 2000, the Council concludes that oil will continue declining in importance while the natural gas slice of the energy market will be about the same as it is today.

If governments maintain current policies, energy demand will shift toward hydro and nuclear electricity. The exact numbers vary according to assumptions about the real price of oil in the next 15 years.

If price has had more impact on the energy demand of the commercial and industrial sectors than on the residential area, conservation seems to have followed a different pattern. In the housing sector, steps ranging from lowering thermostats to insulation have reduced average energy consumption among Canadian households by 13 per cent in the 1973-82 period. There have been smaller gains in the commercial and industrial sector.

But there is room for even greater energy savings. The Council has looked at space-heating devices for homes, industrial cogeneration, waste heat recovery, energy from waste, and alternative fuels for cars to see how competitive they would be economically in 1995 and beyond.

Perhaps the most promising of new home-heating devices is the condensing gas furnace. It is more efficient than the conventional gas furnace and should have good markets in the Prairie provinces, Quebec and Ontario. It should yield cost savings of 20 to 35 per cent over conventional oil heating and 10 to 12 per cent over normal gas heating.

The electric heat pump has some potential in southern Ontario and possibly the Atlantic provinces and Quebec. Wood heating has an increasingly promising future.

There are also some cost advantages and market potential to industrial heating methods such as cogeneration, energy from waste, and waste heat recovery. The outlook is particularly good for waste heat recovery, which involves capturing and using heat from industrial processes.

The Council report also concludes that diesel fuel has definite cost advantages as a substitute for gasoline in automobiles, particularly if oil prices rise. Propane and

compressed natural gas are less attractive, but governments currently favour these alternatives through special conversion and fuel tax policies.

Freeing domestic oil and gas prices from current government controls would help deal with the pricing problem, the Council suggests. Pricing domestic oil below world levels has slowed the move to substitute fuels.

Lack of information is another obstacle. The advantages of some substitute fuels and heating methods are not as well known as they should be.

To cope with this, the Council proposes that governments step up their information efforts in consultation with industry and various interest groups.

The report also calls for continued support by federal and provincial governments of research and development on conservation and alternative energy supplies. And it urges governments to move away from subsidy programs which distort the energy market. Instead, there should be limited government involvement in demonstration projects.

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News Release Communiqué

PR85/07

FOR RELEASE ON
JANUARY 22, 1985

ECONOMIST QUESTIONS R&D SUBSIDY PROGRAMS

OTTAWA - Are Canadians getting full value for the money spent on federal subsidies to private industry for research and development?

An analysis of several federal subsidy programs concludes there are shortcomings in the methods used for selecting and evaluating projects.

The real problem is that administrators of these programs are not asking the right questions, says the study prepared for the Economic Council of Canada.

As a result, says author Abraham Tarasofsky, it is impossible to determine whether the economic benefits to society from these subsidized projects outweigh the costs.

The study, released today, breaks new ground in describing a workable method for figuring out these overall benefits from federal subsidies for private innovations.

Tarasofsky also suggests what questions administrators should be asking as they look at applications for subsidies. And he recommends better monitoring and evaluation of projects once work is under way.

A. Tarasofsky, The Subsidization of Innovation Projects by the Government of Canada, Ottawa, Supply and Services Canada (Cat. No. EC22-121/1984E; $7.95 in Canada and $9.55 in other countries).

The report is based on research carried out for a Council report on technology and productivity - The Bottom Line - which was published in 1983.

The Council researcher found serious drawbacks in the Defence Industry Productivity Program, the Enterprise Development Program, the Industrial Research Assistance Program, and the Program for Industry/Laboratory Projects. He also notes, however, some recent, encouraging signs of change.

The first two programs are managed by the federal Department of Regional Industrial Expansion and the other by the National Research Council. There are differences in their objectives but all are intended to promote innovations in industry.

Before looking at these programs in detail, the author outlines his proposals for dealing with applications for subsidies.

While federal subsidies for specific projects have a legitimate place among policies for stimulating innovative activity, Tarasofsky says, administrators should be asking better questions before granting funds.

These questions should include: Is a subsidy needed to ensure a private firm goes ahead with a worthwhile research and development project? What is the right amount for the subsidy? And is society going to get benefits at least equal to the subsidy and the cost of handing it out?

Before handing out subsidies, federal administrators should find out whether the private firm would proceed with its project without government money, he says. Also, it should be ascertained that the project is unlikely to duplicate or displace a similar project by another firm.

The firm's private returns can and should be measured, the Council economist says, but that is not enough. Society pays the subsidy and therefore must receive something back equal to the payment and the expense in providing it.

He estimates the cost of processing and financing subsidies adds 81 cents to every dollar handed out. So, for example, society should get benefits worth $181,000 for every $100,000 subsidy given to a private company. These social benefits go to consumers and not the producer.

Government officials can calculate this gain to society from the price reduction consumers will get from the innovation's ultimate product and how many units will be sold in a certain period. This information is generated by the same procedures used in working out benefits to the firm and industry.

Administrators should also look back at subsidized projects to see whether the subsidies have met these standards, the report says, and it suggests ways of doing this.

Turning to the Enterprise Development Program, Tarasofsky says a review of six of the largest projects reveals only one that came close to meeting even one of his suggested conditions. He challenges the program's methods of measuring benefits and says his system can be introduced without a major overhaul.

There are also problems in the way the Industrial Research Assistance Program and the Program for Industry/Laboratory Projects are operated. Under the industrial program, the information required of applicants is "utterly incapable of permitting a rational judgement as to whether the project warrants subsidization."

Tarasofsky says many of the largest projects supported by the Defence Industry Productivity Program were probably failures. Officials failed to ask the right questions and insist on plausible answers.

Some administrators allowed project losses to grow without calling a halt soon enough. And some subsidies to subsidiaries of foreign companies could be questioned.

In fact, he says subsidies under the defence industry program shouldn't be given to projects at all, since most of the benefits are likely to go to foreigners rather than to Canadians. They should be handed to firms because the only good reason for aid is to keep the industry going for national security reasons. In general, the author has strong reservations about subsidizing for export innovations.

He recommends some public group - perhaps a parliamentary committee - should be given power to carry out thorough reviews of spending under this program.

The author exempts the National Research Council's Technical Information Service from his guidelines because it has different goals. As its name suggests, it is an information service and much of its help is provided free to firms that would otherwise have difficulty in obtaining the information.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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News Release

Communiqué

FOR RELEASE ON
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PR85/08

LONG-TERM UNEMPLOYMENT MAJOR PROBLEM

OTTAWA - More than 500,000 unemployed Canadians gave up in discouragement and dropped out of the labour force in 1982 after spending three months fruitlessly looking for jobs.

These "discouraged workers" would have pushed up the official unemployment rate another 4 per cent in that recession year, says a study prepared for the Economic Council of Canada. The study was released today.

Economists Abrar Hasan and Patrice de Broucker, the study authors, say there has been a general upward trend in the number of discouraged workers for some years. They define discouraged workers as those who quit the labour force after trying unsuccessfully to get jobs during a three-to-five month period.

The problem, they say, is that the Canadian economy has not been able to generate jobs fast enough for the growing number of Canadians entering the work force.

The plight of these "hidden unemployed" underlines the cost of long-term joblessness - the longer a worker is unemployed, the less chance he has of getting a job.

A. Hasan and P. de Broucker, Unemployment, Employment, and Non-Participation in Canadian Labour Markets, Ottawa, Supply and Services Canada (Cat. No. EC22-125/1985E; $8.95 in Canada and $10.75 in other countries).

The question of long-term unemployment deserves more government attention, the study says. The main solution is more jobs - but that calls for government intervention to create the right economic climate.

The Hasan-de Broucker study focuses on the flow of workers between employment, unemployment and outside the labour force. The traditional method is to look at labour force figures at one point in time - like a snapshot - while the flow approach is more like a movie of the continuous flow of people into and out of jobs and the labour force.

The authors examine the job problem regionally as well as nationally, using 1976-80 figures and checking their findings with 1981-82 statistics. They also look at specific groups of workers such as men, women, teenagers, young adults and older adults.

Hasan and de Broucker are Economic Council researchers on loan to the Organization for Economic Co-operation and Development in Paris.

A key finding of their study is that there is a "high degree of permanence" in employment and unemployment in Canada. Half of those currently employed can expect to hold their jobs for at least nine years. On the other hand, only about 20 per cent of the jobless were out of work for three months or more in 1980, but they accounted for almost half the time that all unemployed were without jobs.

The length of unemployment is a major reason for changes in the unemployment rate, the study says. The authors reject the notion, popular among some economists, that unemployment is overwhelmingly due to people leaving jobs for brief spells because they find them unattractive.

"Total unemployment is less dependent on the inflow into the pool of unemployed and more on how long people are trapped in this pool," say Hasan and de Broucker.

In a regional analysis based on 1980 figures, the authors found:

- An unemployed person had the best chance of finding a job in the Prairies and was least likely to find one in Quebec. Half the spells of unemployment ended in people withdrawing from the labour force in Quebec and the Atlantic provinces.

- The Atlantic region had the highest rates in Canada of unemployed people leaving the labour force and also the highest rates of those entering and re-entering the work force. The big reason was the high level of seasonal jobs in the region.

- Fewer than 19 per cent of jobless Quebecers found a job in an average month in 1980 - well below the Canadian average of 24 per cent. The average length of unemployment in Quebec - 2.5 months - was the highest in the country.

- There were fewer movements into and out of the labour force in Ontario than elsewhere in Canada. And while hiring rates are average in Ontario, jobs are longer-lasting there.

- The Prairies had the highest rates of hiring from the unemployed or from people not in the labour force. The average length of unemployment was lower in the Prairies than elsewhere - 1.8 months.

- In British Columbia, there was a low rate of transition from employment to unemployment and a higher-than-average hiring rate. More people flowed into and out of the work force than in Ontario, but fewer than in the Prairies.

During the 1981-82 recession, Quebec and British Columbia fared worse than other regions in proportion of jobs lost. The discouraged worker problem was most severe in Quebec.

As for teenagers and young adults, the authors find considerable differences in employment experience. Teenagers leave jobs and the labour force at a higher rate than anyone else. But young adults, aged 20 to 24, are less likely than any other age group to drop out of the work force.

Young adults spend significantly longer periods unemployed than teenagers. One explanation is that young adults are more likely to be looking for permanent jobs while a greater number of teenagers are seeking short-term work including summer jobs.

Women tend to have briefer spells of unemployment than adult men. But they risk being unemployed more frequently. In 1980, women worked five weeks less than men, on average.

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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News Release Communiqué

FOR RELEASE ON
APRIL 30, 1985

PR85/09

ECONOMIC NEEDS OF WOMEN HIGHLIGHTED

OTTAWA -- Is broad government intervention the answer to the daycare needs of working mothers? Or is the tax system the best solution? Are so-called "electronic cottages" -- home computers linked to offices -- a boon for women, or are they a method of exploitation by employers?

These are some of the questions tackled in Towards Equity, a just-released report on the proceedings of a colloquium on the economic status of women in the labour market. The colloquium was sponsored by the Economic Council of Canada in Montreal last November.

On daycare, speakers debated the merits of replacing direct government aid for daycare facilities by full tax deductions for child care expenses. Participants also heard warnings about the potential problems of home computers for working women.

Other issues discussed were the wage gap between men and women, the rising number of women moving into male-dominated professions, fringe benefits, parental leave, and the shortage of economic research and data on women in the workforce.

Towards Equity: Proceedings of a Colloquium on the Economic Status of Women in the Labour Market, November 1984, Ottawa, Supply and Services Canada (Cat. No. EC22-126/1985E; 9.95$ in Canada and $11.95 in other countries).

Professor Michael Krashinsky of the University of Toronto said that "daycare subsidies are, in general, an inefficient way to assist working mothers." A universal program would cost billions of dollars and would lead to overuse.

He proposed full tax deductions for child care expenses, but Nicole Boily, of the University of Quebec at Montreal, said that is "elitist." These deductions would help working women with good salaries but not lower-income persons.

Daycare does not have to be a free service for all, she said, but governments should intervene much more broadly in the planning, assistance, and monitoring of daycare services.

Stephen Peitchinis, economics professor at the University of Calgary, questioned fears that new technologies will lead to a widespread loss of jobs for women. The number of working women has jumped dramatically over the last 20 years despite computers, word processors, and other technical advances.

But Senator Lorna Marsden said he took the job problem too lightly. Where would the new jobs be created - in Canada or the United States? She also said women are less able than men to move from one region to another in search of jobs.

Peitchinis suggested an effective use of computer technology would allow women to work at home while on maternity leave or would help them find jobs through a computerized job bank.

However, Ottawa consultant Ratna Ray and others warned that women combining this kind of work with child care could be exploited because there is no protection under existing provincial laws.

Among other points in the report:

. Jac-André Boulet, an Economic Council researcher, said women have been flowing into male-dominated jobs in growing numbers, but progress is still slow. While their share of traditionally male jobs is rising, most new working women still choose predominantly female occupations. He recommended improvements to training programs to encourage more women to enter better-paying careers where men currently dominate.

. Monica Townson, an Ottawa economic consultant, suggested maternity provisions in the unemployment insurance system should be changed to include both men and women. As well, benefits should be raised to 95 per cent of a person's income from 60 per cent and should run for 26 weeks instead of the current 15 weeks.

. Participants were told that the pay gap between men and women has narrowed over the last 10 years or so. However, Ottawa lawyer Louise Dulude suggested that when fringe benefits such as pensions and vacations are included, overall differences in wages may be widening. She said there is a lack of firm evidence in this area.

. Jane Gaskell, a University of British Columbia professor, recommended making mathematics and science compulsory subjects to the end of high school so that more women would be able to move into university disciplines traditionally dominated by men.

. Professor Roberta Edgecombe Robb of Brock University advised caution in using the Canadian Human Rights Act to deal with questions of equal pay for work of equal value. Enforcement of the law might help some women and throw others out of work. She suggested the law should be applied selectively.

The report also includes coverage of the lively floor debate on these and other issues.

As well, it contains an opening statement by Professor Jeannine David-McNeil of the École des Hautes Études Commerciales and a closing summary by Professor Muriel Armstrong of Concordia University. The two Montreal professors were co-chairpersons of the colloquium.

Judge Rosalie Abella, head of the Royal Commission on Equality, touched on the findings of her Commission in a banquet speech.

Opinions expressed in the various papers are the personal responsibility of the authors and, as such, have not been endorsed by the Members of the Economic Council of Canada

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News Release Communiqué

FOR RELEASE ON AUGUST 13, 1985

PR85/15

DOES CANADA NEED AN INDUSTRIAL POLICY?

OTTAWA -- The need for a broad government industrial plan to develop and protect the Canadian manufacturing sector in the competitive world market is questioned in a new study released today.

The study, prepared by researcher Roy Matthews for the Economic Council of Canada, says research indicates the Canadian manufacturing industry as a whole has held its own in competing with foreign goods at home and abroad.

The gradual decline in tariff barriers in the last 20 years has steadily pushed Canadian industries into areas where this country has a comparative advantage over other nations, Matthews says. The efficiency of the Canadian economy has improved.

But the author, an Economic Council researcher now on loan to the Organisation for Economic Co-operation and Development in Paris, cautions that circumstances may change. If investment

R. A. Matthews, Structural Change and Industrial Policy: The Redeployment of Canadian Manufacturing, 1960-80, Ottawa, Supply and Services Canada (Cat. No. EC22-127/1985E; $6.95 in Canada and $8.35 in other countries).

in technology to improve productivity should fall over a long period, Canadian manufacturing could lose its competitive edge.

He also notes that freer trade has had an uneven impact on Canadian industry, helping some sectors and hurting others such as textiles, clothing and shoes. The hard-hit firms are sometimes concentrated in particular regions such as Quebec, undermining the national goal of regional development.

Matthews notes that his study does not look beyond the early 1980s, partly because results from the worldwide economic slowdown of 1981-82 would obscure long-range trends. The author has done extensive research in the international trade field, an area in which the Council acknowledges data are open to various research methods and interpretations.

Demands for a national industrial policy to guide industrial growth have yet to lead to government action, the study says. But the debate is bound to gain momentum with the current talk of free trade with the United States.

Canada has long had some sort of national industrial policy through import tariffs and industrial incentives. But it has yet to develop a "coherent overall scheme worked out in detail and accepted by the major groups involved."

Is there a need for such a plan? Is Canadian industry threatened? How competitive is Canadian industry internationally?

To deal with these issues, Matthews looked at domestic and international trading statistics to see how Canadian manufacturing had been affected by falling tariffs since the 1960s. He also examined costs and the changing structure of Canadian industry.

His general conclusion is that the "manufacturing complex in Canada is achieving a satisfactory position in home and foreign markets" by concentrating on goods where this country has a comparative advantage. These range from wood products to iron and steel.

He acknowledges that service industries have gained in importance compared to manufacturing in the overall economy. But Canadian manufacturers managed to maintain their competitive position against foreign manufacturers.

Foreign firms gained an increasing share of the domestic market but this was matched by "Canadian export successes in foreign markets." Critics of freer trade tend to focus on the growing foreign share of the Canadian market while neglecting the rise in Canadian exports.

Canadian manufacturing succeeded in competing on price as well as output. Firms managed to do this because comparative labour costs rose slowly over this period -- Canada's position compared to its major trading partners and competitors remained unchanged.

Canadian manufacturers managed to offset a relatively poor productivity record with lower increases in wages and benefits than many other advanced nations.

There could be trouble, Matthews says, if there is not enough investment over the long term to improve technology and productivity. A poor productivity performance could outweigh low wage increases and undercut Canada's competitive advantage.

As well, the combination of low productivity and low real wage increases implies that "manufacturing in this country has remained internationally competitive at the expense of a deterioration in Canadian living standards relative to those abroad."

While Canadian manufacturing in general has been able to compete domestically and internationally, there have been some gainers and some losers in specific industries, the study says. The gainers are broadly linked to primary resources where Canada is comparatively strong. The losers are less closely connected to these resources.

"Trade liberalization, it seems, is serving to reinforce an existing competitive advantage and weaken the position of already uncompetitive sectors."

In high technology, Canada has always imported more than it has exported. The status of this trade deficit has not changed much as a proportion of overall trade in high-technology products.

Summing up, the author says that "our verdict on the case for an industrial policy in Canada is the one that can be found in trials under Scottish law -- not proven."

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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News Release

Communiqué

DO NOT RELEASE BEFORE
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PR85/20

SOLID ECONOMIC EXPANSION EXPECTED

OTTAWA -- Canada's economic outlook is steadily improving with prospects of solid expansion in the medium run, says the Economic Council of Canada.

The Council's Twenty-Second Annual Review of the economy, released today, says its basic projections indicate that the economy could grow 3.5 per cent a year on average in the next 10 years, inflation could hover in the 4 per cent range, and the unemployment rate could fall gradually to about 7.5 per cent in the mid-1990s.

The country's economic prospects are brighter now than they were two years ago when the Council proposed a package of medium-term targets for employment and unemployment, inflation, the savings rate, productivity, and social programs. A goal for the deficit was added last year.

These objectives are more within reach than they were when originally proposed if the economy develops along the most optimistic lines the Council can foresee.

Despite these encouraging signs, the Council report points to some weak spots in the economy such as the current high unemployment rate, slow recovery of investment, and a record of low productivity in the decade after 1973.

To illustrate what might be done to brighten the economic picture, the Council carried out simulations using its economic model on a basket of measures including expanding trade, reducing short-term interest rates, and extending the surcharge on personal income taxes to 1990 from 1987. The simulations indicate that results could be even better than those of the Council's base case.

The Annual Review suggests some specific steps such as tax reform, more rapid adoption of technical change, a renewed effort in skill training, and use of modern management techniques.

It also urges a two-track approach to freer trade -- further multilateral negotiations under the General Agreement on Tariffs and Trade and direct talks with the United States.

The economy grew more quickly in 1984 than at any time since 1976. Inflation continued to decline.

But investment was low -- much lower than in the United States. However, recent surveys show that businessmen are planning to increase spending, a positive sign for the next year or two.

While productivity rose in 1983 and 1984 after a long period of stagnation, the Council says "it may be too early to view the experience of the last two years as the beginning of a new long-term trend." Productivity is generally measured as output per person employed and is a key element in rising living standards.

The Council report analyses in detail both investment and productivity as well as interest rates.

The basic projections in the Annual Review are for average annual real growth of 3.5 per cent in 1985-90 and again in the following five years. The unemployment rate averages just over 9 per cent in 1985-90 and 7.6 per cent in 1991-95.

Inflation remains close to 4 per cent in the first five years and dips below that in the last five years. The federal deficit gradually falls as a proportion of the gross national product.

These projections are based on an assessment of such things as economic developments in the United States and Europe, the prospects for energy pricing, and domestic monetary and fiscal policy.

But there are a number of uncertainties. For that reason, the Council has also prepared optimistic and pessimistic cases to show what might happen if some elements such as the U.S. economy and domestic investment perform differently.

The Annual Review says that the top priority of Canadian economic policy during the remainder of the 1980s and the early 1990s should be growth and job creation.

As a guide, the report reiterates the Council's medium-term targets. Among them are an unemployment rate in the 6 to 8 per cent range by 1990, growth in productivity of 1.5 to 2 per cent a year, and an inflation rate of 5 per cent a year or less.

These objectives -- and others on social programs, the savings rate, and the federal deficit -- were presented as a package because they cannot be dealt with effectively alone. The Council says a single goal, such as zero inflation, is unrealistic if it means too high a cost in other areas of the economy.

If the government succeeds in expanding trade under GATT or some other means, steps could be taken to lower interest rates and tighten fiscal policy without damaging overall economic performance, the Council suggests.

It outlines an illustrative example which includes these three policy elements. Results show stronger economic growth, a quicker drop in the unemployment rate, and better deficit control than under the Council's base case projections.

Among other proposals to improve the economy, the report says:

- The corporate tax system should be reformed to end tax breaks or tax penalties which do not help the economy in the long run. As well, governments should avoid constant tax changes -- a stable system would be best for planning for investment projects.

- A stable tax system is also needed for major projects such as oil sands developments in Alberta. The Council expects major projects worth more than $100 billion will be launched in the next 10 years.

- Steps should be taken to spread new ideas, products, and processes more quickly through the Canadian economy to speed up technical advance. Governments could also change competition policy to remove legal barriers to joint ventures in research and development by private firms.

- Workers should be trained with a "family of skills" rather than single skills so that they could retrain easily later when their specialties die out.

Council Chairman David Slater also says in a personal note that the Macdonald Commission report on Canada's economic prospects is "moderately optimistic and reformist" on economic issues. In that way, it is similar in tone and mood to the Council's Annual Review. While the Commission has gone beyond Council proposals on some questions, there seems to be a wide consensus on the broad economic issues and general policy alternatives in Canada.

Pierre Fortin, a Council member who is an economics professor at Laval University in Quebec City, also added some supplementary views in the Annual Review.

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PR85/21

PRODUCTIVITY RECOVERING AFTER GROWTH SLOWDOWN

OTTAWA -- Productivity is now on the upswing after 10 years of slow growth, but it is too early to say that this improving trend will continue, says an Economic Council of Canada report.

The report, the Council's Twenty-Second Annual Review of the economy, says that productivity started climbing again in 1983 and 1984, aided by the recovery from the recession of the early 1980s. But this recent upturn has been too short to judge whether productivity growth will be long-lasting.

Rising productivity, commonly measured as output per person employed, contributes to rising living standards, notes the Annual Review, released today. But productivity growth slowed down for the 10-year period following the first major boost in oil prices by the Organization of Petroleum Exporting Countries in 1973.

The report notes that productivity improvements can range from a lawyer handling more cases with a word processor to a large fishing trawler landing more fish than a dory schooner.

Real incomes and living standards rise when people, machines, buildings, raw materials, and knowledge are combined to produce more goods and services more efficiently.

The Annual Review analyses the slowdown in productivity growth by looking at many factors from technology to labour and management.

The amount produced by individual workers is only one aspect of productivity. Focusing on labour alone can cause needless problems and less effective policy advice.

Claims that workers are unmotivated and lack the work ethic are "indefensible," the Annual Review says. And the influx of working women and younger people into the work force has contributed little to the slowdown in productivity growth.

The Council prefers to talk about "total factor productivity" which considers all elements involved in producing goods and services, not just labour.

Other Western industrialized countries also faced productivity problems in the last decade or so. But no one has yet come up with an airtight explanation for the prolonged slowdown.

But some factors are clearly more important than others, says the Annual Review.

Rising demand, along with greater scale economies, such as results from an assembly line producing more cars, helps fuel productivity growth. Another contributing factor is shifting people, money, and equipment to a more-productive use from a less-productive one.

The 1973 oil crisis led to a recession in North America and reduced consumer demand. There followed years of economic uncertainty as governments fought inflation and, as a side effect, dampened demand. This led to lower use of plants and equipment.

The speed of adoption of modern production and management methods is another aspect of productivity growth. New technology was developed and spread more slowly after the oil price shocks, perhaps because new technical ideas in the early 1970s depended so much on oil and petrochemicals.

The age, sex, and educational makeup of the work force played only a minor role in the slowdown, says the Council. There is also little support for such factors as insufficient spending on research and development, poor worker morale, and poor management.

To improve productivity, a growing economy with low inflation and unemployment rates is obviously important.

But the Council report also says that competition should be strengthened, government regulation eased or reformed, and trade expanded.

As well, government should review tax, industrial support, research and development, and education policies to see that resources are used in the best way possible.

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PR85/22

HARD TO BRING DOWN INTEREST RATES ALONE

OTTAWA -- Canada has little room for manoeuvre in setting interest rates alone because the Canadian economy is so closely tied to the American economy, says the Economic Council of Canada.

The Council's Twenty-Second Annual Review of the economy, made public today, questions such steps as exchange controls or allowing the Canadian dollar to drop in an effort to cut interest rates. Such moves are either ineffective or risk creating other problems such as higher inflation and could lead to a double blow -- a lower exchange rate and higher interest rates.

The report looks at government efforts to impose interest rate and exchange controls in other countries and concludes that the world is moving towards the more open-market approach to monetary policy followed in Canada and the United States.

Lowering interest rates without tightening government spending "is more likely to produce small benefits and large risks than the reverse," the Council says.

But the Council cautions that the Bank of Canada should not "blindly attempt to match U.S. interest rate movements nor exclusively focus on efforts to avoid exchange rate movements."

Over the long run, agrees the Council, the best hope for reducing the current spread between Canadian interest rates and American rates is through fundamental improvement in the Canadian economy. That would build up investor confidence, a key to achieving lower rates without causing the dollar to fall.

Canadian interest rates have traditionally shadowed American rates -- they have remained about 1 per cent above U.S. rates since the early 1970s. A major reason is that the two economies are tightly linked -- most of Canada's exports flow to the United States and Canadian and American financial markets are closely integrated.

But following U.S. rates can hurt Canada because a higher proportion of Canadian firms rely heavily on borrowed funds so they are more sensitive to rate changes. And Canada tends to lag behind the U.S. business cycle so that a move to raise rates in this country may come at the wrong time for the Canadian economy. High interest rates may have had a dampening effect on the recovery.

This has prompted some Canadians to call for a "made-in-Canada" interest rate policy.

However, the Council notes that the difference between Canadian and American interest rates depends on whether people expect the Canadian dollar to rise or fall. Lower interest rates can't be maintained in Canada unless investors expect the Canadian dollar to climb.

Lower interest rates generally lead to a lower value for the dollar on international money markets. The value of the currency will fall until there is widespread confidence that it will rise again.

This happens because money moves freely across the U.S.-Canada border and investors have no qualms about buying the same securities in either American or Canadian dollars. This interchangeability makes it very difficult for the central bank to influence domestic rates in the long run.

Council researchers also looked at monetary policy in West Germany, Britain, Japan, and France and found that attempts to follow an independent path on interest rates ran into problems in the context of a more interdependent world.

Canada has an open-market system for financial dealings but the other countries have greater controls or have experimented with them in the past. None of the other countries are as firmly attached to the U.S. economy as Canada. Still, they ended up following the U.S. lead.

France still has the most elaborate system, including domestic credit controls and exchange and capital controls internationally. The Council concludes that "exchange controls have not been successful in sheltering the French economy and financial markets from foreign influences."

There are shortcomings in both exchange controls and a deliberate lowering of interest rates as a solution to high rates in Canada, says the Annual Review.

Simulations on the Council's economic model indicate that lowering the interest rate and allowing the dollar to fall leads to a slight spurt in the economy in the short term but with rising prices more than offsetting the gains in the long term.

The Council also finds drawbacks with subsidized interest rates and income tax deductibility of interest rates payments.

Confidence in the Canadian economy is a key factor in lowering interest rates and narrowing the spread with American rates without causing the dollar to take a prolonged tumble, says the Council. This confidence can be reflected in people expecting the dollar to rise. It can be strengthened through improving productivity, lowering inflation, controlling government deficits, and bettering the social conditions of Canadians.

So the Council urges the Bank of Canada to "test the market for any increase in confidence and take advantage of any room for manoeuvre to reduce interest rates."

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DO NOT RELEASE BEFORE
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PR85/23

INVESTMENT RECOVERY LIKELY TO SLOW IN NEAR TERM

OTTAWA -- Investment, a major element in economic growth, is likely to pick up in the near term but expand more slowly in the next decade than in the last 20 years.

But the Economic Council says in its annual assessment of the economy that investment is certain to rebound in the short run from the sharp decline in the 1981-82 recession.

In the longer term, the prospects will not be as bright as in the 1960s and early 1970s because of such factors as a slowdown in population growth, lower world prices for primary products, a slackening in the development of new technology, and reluctance by consumers to spend as much as they once did.

The Council's Twenty-Second Annual Review of the economy, released today, says government can encourage investment for new technology and should be careful not to inadvertently take measures that could dampen consumer spending. For instance, a too drastic approach to deficit spending could have such a negative impact.

Investment is important to the economy. New plants and new equipment often mean more jobs and raise productivity. Investment is considered a major contributor to economic growth because it increases the country's capacity to produce goods and services.

The ups and downs of the business cycle have a direct impact on investment because they affect consumer demand. But there are long-term factors as well, such as Canada's changing competitive position in international markets, consumer attitudes, and development of new technology.

Investment has been weaker in the 1982-84 recovery than in other recoveries. But the Council expects an increase in 1985 and 1986 above 1984 levels.

Increased demand is one reason for the upswing in investment. Another is that businesses have reduced their high debt levels and can now turn to investing in new plant and equipment.

As well, profits are improving and recent federal budget measures should help companies get equity capital.

But, in general, investment is expected to be "a rather cautious and slow process" in the longer run, the Council says.

Interest rates will remain high but may not choke investment if consumer demand is strong.

Looking at individual sectors, the Council says investment in the oil and gas industry should continue improving. Measures in the federal budget and in the Western energy accord should benefit the industry.

In manufacturing, the top industries are likely to be motor vehicles and parts, transportation equipment, pulp and paper for newsprint, office equipment, and computers. The emphasis will probably be on new technology rather than on more or larger plants.

Pent-up demand for housing is bound to push up residential construction in coming years, the Council report says. Builders will focus on expensive, single-detached homes rather than apartments to satisfy the expanding 35-45 age group.

The Council weighed the various ingredients in a firm's decision to invest and concluded that the most important item is consumer final demand. Of course, a firm will only invest in new plant and equipment if its existing capacity is stretched to the limit by rising demand.

Other aspects are profits, the level of interest rates, business confidence, and taxation and subsidies.

Using energy megaprojects as an example, the Council report notes that big oil and gas projects, like Alsands in Alberta, were launched when demand for oil and oil prices were expected to be high.

Some projects, like Alsands, were put on the back burner because circumstances changed. They were affected by a variety of factors, among the most important being a major change in oil consumption and pricing.

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FEBRUARY 24, 1986

PR86/02

ECONOMIC FACTORS AFFECT OIL EXPLORATION

OTTAWA -- Recent research backs up claims that economic policies have a significant impact on oil exploration as well as production.

A study prepared for the Economic Council of Canada in 1984 and released today details how the supplies of crude oil and natural gas respond to changes in the economic conditions faced by the oil industry.

In their pioneering study, Russell Uhler and Peter Eglington combine economic data with geological and engineering information to estimate how much oil could be developed in specific geological formations under various price and drilling assumptions.

Traditionally, supply estimates have been largely based on engineering and geological studies without taking account of economic aspects. This study incorporates the impact of the oil price and the fiscal regime on netbacks and on the "reserve price" or value of a barrel of oil in the ground.

R. S. Uhler, with the collaboration of P. C. Eglington, The Potential Supply of Crude Oil and Natural Gas Reserves in the Alberta Basin, Ottawa, Supply and Services Canada (Cat. No. EC22-128/1986E; $7.95 in Canada; $9.55 in other countries).

The authors say that it is this reserve price that affects exploration decisions. This means that, within limits, a cut in government royalties or taxes may raise the reserve price even if the wellhead price is constant or falling. That could encourage oil companies to step up their search for oil.

They conclude that a 1 per cent change in the reserve price could increase exploration that would, over time, alter conventional oil reserves by as much as .4 per cent in the Alberta basin.

Uhler is an economics professor at the University of British Columbia with a special interest in oil and natural gas supplies. Eglington was chief economist at the National Energy Board for five years and is now an energy consultant in Ottawa.

Their work on Alberta oil and natural gas supplies contributed to the Council's 1985 report Connections: An Energy Strategy for the Future.

The authors first divided Alberta into 10 areas and 10 geological formations, yielding 100 regions for detailed examination. But they then focused attention on eight regions. Their findings point to the most promising geological formations for further exploration.

To illustrate what can happen, the authors used several engineering economics models to demonstrate the impact of changing economic circumstances on the reserve price.

Depending on the price and drilling assumptions used, they say their 1981 data indicate that between 60 million and 160 million cubic meters (378 million to 1 billion barrels) of additional conventional oil could be recovered in the Alberta basin from the geological formations where 98 per cent of the reserves have already been found.

Based on their statistical analysis, Uhler and Eglington say that the Upper Devonian is the geological formation with the greatest potential for significant additional conventional light and medium oil reserves in the Alberta basin.

The Upper Devonian formation is found throughout Alberta but most of the pools are in a triangular area between Edmonton and Calgary. There is also a major pool -- Redwater -- north of Edmonton.

The research was carried out in 1983 and 1984 before the Western energy accord and before the recent sudden drop in world oil prices.

While the specific oil price figures used in the Uhler-Eglington report are not current, Patrick Robert, Council Director, says the basic findings concerning the impact of economic conditions on exploration still hold. Indeed, they are even more relevant today in terms of energy policy because they demonstrate the sensitivity of exploration and reserve additions to changes in prices.

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News Release Communiqué

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CP86/04

WOMEN BYPASS BLUE-COLLAR JOBS FOR ECONOMIC REASONS

OTTAWA -- A major reason women tend to bypass blue-collar jobs and training programs is that their economic prospects are better in white-collar occupations, says a research report released today.

Montreal economist Daniel Boothby, author of the report, says his research indicates few women choose blue-collar training programs because such white-collar occupations as clerical and health jobs offer more attractive working conditions, pay and career opportunities than many trades.

The study report, prepared for the Economic Council of Canada, finds little evidence of women being steered away from blue-collar training plans. But Boothby recommends that Employment and Immigration Canada set up a task force to see if there is discrimination.

He says that it would be worthwhile for more women to enter blue-collar occupations because it would broaden job opportunities and it could solve labour shortages in certain high-skilled positions.

D. Boothy, Women Reentering the Labour Force and Training Programs: Evidence from Canada, Ottawa, Supply and Services Canada (Cat. No. EC22-129/1986E; $5.95 in Canada and $7.15 in other countries).

Boothy used Employment and Immigration Canada data on people enrolled in federal institutional training courses in the 1970s and early 1980s to track men and women trainees already in the labour force and women re-entering.

Women tend to take classroom-style courses rather than apprenticeship or industrial training, partly because they want to improve their general education for clerical or health jobs, such as nursing. Blue-collar occupations, dominated by men, often call for less education.

Less than 1 per cent of apprentices in traditionally-male, blue-collar occupations are women.

Boothby found that almost 60 per cent of women enrolled in skill programs aimed at specific jobs chose clerical training and about 10 per cent selected health -- mainly nursing -- courses.

But roughly 70 per cent of men in skills training picked such trades as machining, construction, and fabricating, assembling and repairing. Women seldom pick these trades.

Most men and women choose training in areas where they last worked. That is partly because they have already invested time and effort in these skills.

There is a greater chance they will seek training in a new field, says Boothby, if they are young and have not spent too much time in their last occupation.

Explaining why women do not pick blue-collar training, the author says an important factor is that they are making

"rational economic choices." For example, they may see that they would earn less in many blue-collar trades than they would in clerical jobs.

They may also favour these training programs because they have family responsibilities and don't want to spend a lot of time in on-the-job training. As well, they may doubt their chances of getting blue-collar jobs or they may not want them.

Discrimination and the way women are trained from childhood may also influence their choices, but Boothby says there is no evidence to say how important each of these factors is.

To encourage more women to enter blue-collar jobs, the author suggests federal employment department programs to train women in highly-skilled occupations where there is a big demand for workers. And increasing dependent allowances for child care might help trainees in institutional programs.

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News Release Communiqué

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PR86/05

NEW STUDY PROPOSES MEASURES TO AID FOREST INDUSTRY

OTTAWA -- A new study points to poor prospects for steady expansion of the forest industry in British Columbia and recommends measures to improve the industry's economic outlook.

Economist Michael Percy, a University of Alberta professor, says in a study released today that current estimates indicate that "British Columbia has negligible timber reserves on which to base continual expansion of the forest products industry."

The author suggests faster rotation of trees, more intensive forest management, and a steadier pattern of investment could bring more economic benefits to British Columbians than the current forest management system.

The study was prepared for the Economic Council of Canada and is based on research carried out for the Council's major 1984 report on the Western Canadian economy Western Transition.

M. B. Percy, Forest Management and Economic Growth in British Columbia, Ottawa, Supply and Services Canada (Cat. No. EC22-130/1986E, $7.95 in Canada and $9.55 in other countries).

Percy says that one of the main problems facing forest managers is a large stock of old timber, some of which is decaying or has been hit by pests and other natural calamities. This older timber loses value.

At the moment, the B.C. Forest Service sets the "annual allowable cut" of timber at a level that will yield a sustained supply over time. Percy refers to this as a physical standard for managing forests.

Under this policy, the harvesting of mature timber is stretched out over a long cycle. This policy may cost the province money in lost income that might have been earned if mature trees were harvested more quickly and replaced by new trees.

He estimates that the province, which regulates and owns the forest base, forgoes millions of dollars a year in revenue by failing to harvest and replenish these timber stands more quickly.

As an alternative to the physical standard for managing forests, the author proposes an economic approach that would centre on increasing the economic benefits for British Columbians.

Faster cutting of mature trees and replacement with new trees would be one step.

As well, there are other economic benefits to B.C. forests besides timber, he says. He suggests these benefits -- wilderness, recreation, and erosion control -- are overlooked

in the physical standards used to determine the harvest cycles and to evaluate investments in the forest base.

But when they are included, some investments that may seem unprofitable from a forest industry point of view, "are, from society's perspective, desirable and should be undertaken." On the other hand, the opposite is also true -- some profitable private projects may be bad socially when all the costs and benefits are added up.

After weighing up various alternatives for increasing timber supply, the author says that intensive forest management offers the greatest opportunities. Intensive forest management includes such measures as research into genetically superior trees, reforestation of previously harvested areas, and a variety of techniques for tending second-growth stands of trees.

To encourage investment in the forest base, Percy says the provincial government should ensure forest product firms receive "full compensation for all investments in basic and intensive forest management on Crown lands that can meet financial criteria for desirability."

Creating a funding system somewhat along the lines of Alberta's Heritage Savings Trust Fund would help maintain a steady flow of investments and avoid dramatic fluctuations, he says.

The government is reasonably efficient in collecting money from forestry companies for cutting down trees on Crown lands, the author says. But he notes that there are problems

with the existing formula. Perhaps the most important is the failure to link the profit allowance to the capital stock employed in the industry.

He terms "economic nonsense" claims by American producers that charges by the provincial government for cutting down trees on provincially owned land are so low that they amount to an unfair subsidy to B.C. firms, helping them undercut American producers in the U.S. market. These fees are known as "stumpage."

Failure to collect all the revenue possible would leave more money in the hands of producers without encouraging them to expand production and exports, he says. Any uncollected amount could, for example, end up as higher wages and ultimately higher production costs. That could lead to less timber being harvested and a reduction in production and exports.

Percy assesses the impact of the provincial embargo on exporting logs and concludes that there would be a slight overall gain to the B.C. economy in the longer run if it were lifted. He acknowledges that the local wood-processing industry would shrink, but this would be more than offset by an expanding logging industry. The embargo is designed to encourage more processing in the province.

Finally, the economist examines five timber, price, and trade scenarios in economic simulations and concludes that some would hurt the forestry industry and the provincial economy seriously while others would have only a modest impact.

For instance, a 10 per cent boost in log exports would have little overall effect but a 15 per cent U.S. duty on B.C. forest products would lead to a "massive contraction of the British Columbia economy."

He also looked at a 10 per cent increase in ocean freight rates, a 10 per cent decline in world softwood prices, and reduction in harvest levels, all of which would have a bad effect. The drop in world lumber prices would be as serious a shock as the American tariff.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release

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FOR PUBLICATION ON
JUNE 25, 1986

PR86/07

CLIMATE CHANGES: GOOD OR BAD FOR CANADA?

OTTAWA -- The gradual warming of Earth's surface -- the so-called "greenhouse effect" -- could force changes to Canadian farming, navigation, forestry and power generation and yet yield economic advantages for Canada.

At the same time, says Canadian scientist Kenneth Hare, this climatic change could threaten world food supplies and global stability.

Hare, Professor Emeritus of geography at the University of Toronto, says in an Economic Council of Canada report, released today, that the impact of global warming should be clear by the end of this century and "big news" in less than 40 years.

The report includes Hare's paper and others given at a conference on the environment sponsored by the Council in Toronto last December.

While other authors focus on problems that are already apparent, they too underline the link between environmental questions and political, social and economic issues on a national and international scale.

Managing the Legacy: Proceedings of a Colloquium on the Environment, December 1985, Supply and Services Canada, Ottawa (Cat. No. EC22-131/1986E, $9.95 in Canada; $11.95 in other countries).

They touch on the future costs to the Canadian economy of poor management of water and forests, the costs of disposing industrial wastes, and the economic and political toll of rapidly worsening environmental problems in the developing world.

The greenhouse effect, says Hare, is caused by fossil fuels, such as coal and oil, spewing carbon dioxide into the atmosphere. The increase in carbon dioxide and other pollutants prevents radiation from escaping the earth so that the surface temperatures gradually rise.

A warmer world might, for example, cause Canadian trees to grow much more quickly and, at the same time, increase the threat of fires and pests.

But the University of Toronto professor suggests farmers will be able to adapt through technical change such as new strains of wheat and corn. There is a good chance that the forestry industry could also adapt.

In this situation, Canadian agriculture may fare better than farming in the United States and the Soviet Union.

While this might work to "Canada's commercial advantage," he says that "anything that disturbs the world food system contains threats to stability."

James MacNeill, Secretary-General of the World Commission on Environment and Development in Geneva, says developing nations can't afford the "react-and-cure policies" of the richer countries. So their environments are deteriorating rapidly -- they are in "deeper ecological debt than financial debt."

Policies aimed at cleaning up pollution will remain important, says MacNeill, but nations must try to anticipate and prevent environmental damage. If not, even rich nations like Canada will be unable to stop pollution from growing.

Gustave Speth of the World Resources Institute in Washington, says environmental damage has helped create such major crises as war in El Salvador, refugees fleeing Haiti for the United States, and mass starvation in Ethiopia.

Soil erosion on overused land has been a prime factor in the Haitian and Ethiopian problems, he remarks.

Speth and other authors in the Council report say there is progress in dealing with environmental problems and that there is still time to combat many of them.

Among other comments:

° Different methods of licensing and pricing for use of water could improve conservation and reduce pollution in Canadian lakes and rivers, says Peter Pearse, Chairman of the recent Inquiry on Federal Water Policy. There must also be strong efforts to develop management of river basins that includes all uses.

° Gordon Baskerville, Dean of Forestry at the University of New Brunswick, says total forest area may be increasing in Canada but Canadian forests "are in a bunch of messes." Canada needs better planning and management of forests to cope with looming shortages of certain valuable trees in different areas in coming years.

° Donald Chant, President and Chairman of the Ontario Waste Management Corporation, calls for stiffer regulations requiring people to move industrial wastes to treatment facilities.

° Camille Dagenais, former Chairman of the Montreal engineering firm Groupe SNC Ltd., says the benefits of big dams or reservoirs can "far outweigh" the disadvantages despite complaints from some environmentalists. Irrigation and power produced by these reservoirs can more than make up for some environmental damage they may cause.

° Allan Kneese, Senior Fellow at Resources for the Future in Washington, says a study attempting to estimate the economic value of maintaining surface water quality in the United States concluded that Americans were willing to pay $16 billion a year for this purpose. Many respondents in a survey indicated they were willing to pay even if they would not personally benefit from using these rivers and lakes for recreation.

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News Release | Communiqué

FOR PUBLICATION ON
SEPTEMBER 3, 1986

PR86/08

HIGH-TECH HANDBOOK BREAKS NEW GROUND

OTTAWA -- Workable Futures is a handy, easy-to-read guide to the major new technologies of our time -- the first of its kind in Canada.

Judith Maxwell, Chairman of the Economic Council of Canada, said the handbook, released today, was commissioned after economists working in the Council's labour and technology research group found that no reference books were available to help the non-specialist understand key developments in new technology.

"The group saw a chance to create a book that would help Canadians understand the new technologies and have some fun reading at the same time," said Maxwell.

Workable Futures was prepared by Words Associated, an Ottawa consulting group, under the direction of Keith Newton, director of the Council's labour and technology group. "We've tried to produce a provocative, entertaining book that's more than just another government publication," said Words Associated president Ruth Tabacnik.

Workable Futures: Notes on Emerging Technologies, by Words Associated and K. Newton, Ottawa, Supply and Services Canada (Cat. No. EC22-132/1986E; $5.95 in Canada and $7.15 in other countries).

"It's important that everyone understands what to expect from the technical innovations ahead," Newton explained. "Workable Futures is designed to be accessible to students, business people, union members and anyone who is curious about the new technology."

Technical insiders are unrestrained in their praise for the handbook as an introduction to their domain. Michael Cowpland, founder of the upstart telecommunications giant Mitel and president of Corel Systems, considers the book "a great introduction to the high-tech world." Arthur Cordell, science advisor to the Science Council of Canada and author of "The Uneasy Eighties: The Transition to an Information Society," calls it "your passport to understanding the new technologies."

The handbook, a departure in style for the Council, will be closely followed by a report on the impact of new technology on Canadian firms and their employees. The study, based on a survey of almost 1,000 firms across Canada, is expected to be released in late September.

These reports are the first fruits of a larger research program focusing on the effects of technological change on the labour force. Council researchers are trying to answer such questions as: Does technological change mean loss of jobs? Are the new technologies creating a new system of technocrats, technopeasants and a declining middle class? How should our education and training systems cope with the skills required by the new technologies?

The Council will conclude this project with a major report next year, summing up the research and providing advice on these issues.

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PR86/09

WORKABLE FUTURES: A PASSPORT TO UNDERSTANDING THE NEW TECHNOLOGIES

OTTAWA -- It's one thing to study the economics of robots in the factory or genetically engineered super-trees in the forest, but quite another to try to talk about them -- so researchers from Ottawa's Economic Council of Canada have discovered.

"We found that many people really have no idea what the new technology is all about," said Council Chairman Judith Maxwell. "How can the ordinary citizen take part in discussions of the changes ahead without some understanding of what's involved?"

In response, the Council's labour and technology research team decided to take on the job of closing the knowledge gap between technocrats and non-specialists. The result of their effort is Workable Futures: Notes on Emerging Technologies -- maybe the freshest, easiest-to-read book about technology around.

Workable Futures: Notes on Emerging Technologies, by Words Associated and K. Newton, Ottawa, Supply and Services Canada (Cat. No. EC22-132/1986E; $5.95 in Canada and $7.15 in other countries).

From robots labouring through the night in unmanned Japanese factories to engineers struggling to build cheap plastic automobile engines that won't melt, the book provides a provocative glimpse of the shape of tomorrow. A tomorrow where genetically engineered super-plants may be the norm on the nations' farms where many people will find themselves working side by side with robots and talking to quasi-intelligent computers.

The book says almost everything we use is in for a redesign as tough new materials and computer-aided design prove they can deliver better, more profitable products. And these new products will be simpler, stronger, lighter and easier to manufacture. The implications of this technical knowledge explosion for Canada's manufacturing and resource industries are profound.

"These technologies are really shaking up conventional ideas of employment, labour and productivity," said Keith Newton, director of the Council's labour and technology research team. "But like it or not, they're here to stay. We realized that the only way to get people thinking about what they mean was to break the old mold and invent a completely new kind of report."

"A lot of people suffer from technophobia," elaborates Ruth Tabacnik, president of Words Associated, the Ottawa-based consulting company responsible for the report. "Technical buzzwords and computer jargon put them to sleep. We aimed to overcome this resistance with a dramatic account that really captures people's attention."

The drama presented in these portraits of 12 technologies now emerging in the industrialized economies might best be summarized as "more with less." More things made from fewer raw materials. More usable crops from fewer acres of farmland. More product from slick new streamlined factories. More effective output from the nation's automated offices -- more communication, even more information.

The opportunities for a highly educated society like Canada are tremendous. The probability of social upheaval seems equally strong.

"Concepts like 'artificial intelligence' seem years away to most people," comments Tabacnik. "But the reality is they're here now. You can already find off-the-shelf expert system computer software to do accounting, engineering or even diagnose diseases. And it's developing so fast -- every job or profession is bound to be affected by the coming changes, one way or another."

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News Release

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PR86/10

SALES, WAGES HIGHER IN FIRMS WITH HIGH TECH CHANGES

OTTAWA -- Companies which introduced computer-based changes outperformed less-innovative firms in sales, wages, and productivity in Canada in the early 1980s.

As well, technically advanced companies expanded their workforces just as rapidly as those which did not introduce such innovations.

This picture of the impact of new technologies emerges in a survey of close to 1,000 Canadian firms, released today by the Economic Council of Canada.

The survey, the first comprehensive study of this kind in Canada, touches on all but a handful of industries and includes all regions. It provides solid fuel for the debate about the effects of technological change.

Prepared by Council researchers Gordon Betcherman and Kathryn McMullen, the survey is part of a major Council project on technological change and the labour force. A breezy, readable guide to high technology, released in early September, was also produced by the Labour and Technology Research Group.

Working with Technology: A Survey of Automation in Canada, by Gordon Betcherman and Kathryn McMullen, Ottawa, Supply and Services Canada (Cat. No. EC22-133/1986E; $3.95 in Canada and $4.75 in other countries).

Betcherman and McMullen asked Canadian firms for detailed information on their computer-based innovations in the 1980-85 period and what they expect to introduce in the next five years.

The authors found that employment grew 12 per cent in innovating companies in the 1980-85 period, virtually as quickly as in firms which did not try computer-based changes. While many of the changes were labour-saving, innovators were able to increase sales enough to hire more workers.

Productivity also rose more rapidly in these more technically advanced companies and wages climbed 40 per cent, on average, compared to 32 per cent in other firms in this five-year period.

The rate of innovation was highest in the West, followed by Ontario and Quebec, with Atlantic Canada lagging behind.

"Certainly, to some extent, these figures reflect the regional distribution of industries," say the authors. "For example, a high tech sector like business and services is more likely to be located in Ontario and the West than in the Atlantic provinces."

White-collar workers, particularly women, felt the impact of technological change more than others. Women were more affected than men because computer-based innovations, such as word processing, primarily affected office jobs.

Other highlights:

° The most innovative sectors were wholesale trade, communications, and utilities.

° Innovating companies were more likely than non-innovators to attempt organizational changes such as decision making by labour-management committees.

° Virtually all big companies with more than 500 employees reported some computer-based technical change, a far higher proportion than firms with 100 or less workers.

° About two-thirds of innovations were office automation systems, considerably cheaper than such technologies as computer-aided manufacturing and computer-aided design.

° New technologies required changes in jobs and new skills. This led to considerable retraining. About half the retraining was in clerical occupations, most of it short-term and on-the-job.

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MORE CHANGE FOR BLUE-COLLAR WORKERS, SAYS SURVEY

OTTAWA -- Blue-collar workers can count on more technical change on-the-job in the next five years than they did in the early 1980s, says a recent survey of Canadian companies.

Most computer-based innovations centred on white-collar jobs in the 1980-85 period, says the survey report, released today by the Economic Council of Canada.

The trend will gradually shift toward blue-collar occupations though office employees will still be most affected by automation.

The survey of nearly 1,000 Canadian firms -- the first of its kind in Canada -- was carried out by Council researchers Gordon Betcherman and Kathryn McMullen. Companies from every province and most industries responded to the detailed questionnaire.

The survey report concludes processes such as computer-aided manufacturing and computer-aided design will account for about 34 per cent of computer-based changes in the next five years, up from 23 per cent in 1980-85.

Working with Technology: A Survey of Automation in Canada, by Gordon Betcherman and Kathryn McMullen, Ottawa, Supply and Services Canada (Cat. No. EC22-133/1986E; $3.95 in Canada and $4.75 in other countries).

Cases of office automation will decline as a share of overall technical change.

Certainly, cost was a major factor in office automation outpacing other technical changes in the early 1980s. For instance, 50 per cent of computerized-numerical control applications cost more than $400,000 while the figure for word processing was in the $20,000 range.

The authors say that the scale of change is likely to increase in the future.

"Clearly, blue-collar workers can expect to encounter increasing technological change in the workplace," say Betcherman and McMullen.

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News Release Communiqué

DO NOT RELEASE BEFORE
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PR86/12

STEADY ECONOMIC GROWTH EXPECTED

OTTAWA -- Canadians can look forward to steady economic growth, gradually falling unemployment, low inflation and rising purchasing power in the next 10 years, says the Economic Council of Canada.

But the Council says in its Twenty-Third Annual Review of the economy, released today, that these economic benefits will be spread unevenly across the country.

The Western provinces have been hard hit by falling world oil prices and low wheat prices. The Atlantic provinces have been hurt by the oil price decline and chronic economic problems.

As well, the Council warns that rising protectionism could blight the economic outlook.

Low world oil and wheat prices, debt problems in Third World countries, swings in currency exchange rates, and international trade issues have an impact on the domestic economy.

Twenty-Third Annual Review, "Changing Times," Ottawa, Supply and Services Canada (Cat. No. EC21-1/1986E; $6.95 in Canada and $8.35 in other countries).

The Council's comments in the Annual Review are based on more detailed research that will be published in major reports along with recommendations in the next few months.

The Annual Review notes that governments are considering reforms to economic and social policies because of the squeeze on government spending.

But the Council "believes the process of reform offers opportunities for economic gains that go far beyond deficit reduction." It encourages economic growth and efficiency over the long term.

In proposing broad regulatory reform of the financial system, the Annual Review sets the stage for the release of a Council statement on financial institutions in the next few weeks.

As for tax reform, the Council says that recent changes in the American tax system create "a greater incentive than ever for Canada to get its tax system in order."

The United States has moved toward a situation where investors and others will choose what they are going to do with their money based on what is most profitable or efficient rather than on tax benefits.

The Council's study of corporate, property, sales, and personal taxes indicates that Canada would benefit from a more neutral tax system.

Reform of federal social policies such as unemployment insurance and old age assistance should embrace all tax and financial aid programs aimed at a particular group such as youth

or the elderly, the Annual Review says. And it should allow for the different needs of Canadians.

As for the health care sector, the Council says it "faces a critical future, as the cost of meeting the demand for services rises and the ability of governments to finance care diminishes."

So Canada should experiment with different methods of providing health care and controlling costs.

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PR86/13

FREER TRADE WOULD BOOST ECONOMY, SAYS COUNCIL

OTTAWA -- Freer trade with the United States would boost economic growth and employment substantially in Canada but protectionism could cost hundreds of thousands of Canadians jobs in the next 10 years.

In the Twenty-Third Annual Review, the Council said its economic simulations of freer trade with the United States show that all industrial sectors -- primary, manufacturing and services -- would increase output.

Economic simulations, reported by the Economic Council of Canada today, indicate that in net terms overall an additional 120,000 new jobs would be created by 1991 if tariff and some non-tariff barriers with the United States were dropped by 1987. This total could rise to 200,000 by 1995.

But about 520,000 jobs would be lost in net terms by 1995 if the United States were to impose a 20 per cent surcharge on most imported manufactured goods and its trading partners retaliated.

The Council's Annual Review of the economy also outlined alternative cases -- one assuming there is no retaliation after

the breakdown of free-trade talks with the United States, and the other based on a gradual introduction of a free-trade accord. In both cases, the results are less striking.

Council researchers are now looking into the impact of free trade on individuals and specific industries. Findings will be published over the next two years.

The Council recommended freer trade in a 1975 report Looking Outward, saying that benefits would be greatest from a multilateral accord under the General Agreement on Tariffs and Trade. The second-best option was a bilateral deal with the United States.

Canada would gain from lower prices to consumers, reduced production costs, and a greater ability to compete. Some highly protected industries would lose, but there would be substantial benefits nationally.

The number of new jobs could even exceed the 200,000 projected by 1995 with the quick removal of trade barriers, the Council said. Freer trade could lead to higher productivity, stimulating employment even more.

On the other hand, a victory by American protectionists would have a serious impact on Canada, especially if other countries struck back at the United States.

As for the new round of GATT talks, the Council report said Canadian negotiators face long and tough discussions on removing barriers to such items as agricultural goods and services.

Freer trade is bound to disrupt some firms and force some people to look for new jobs, the Annual Review said. The Council is now trying to pinpoint the most vulnerable workers and industrial sectors and offer suggestions on how they can deal with changes.

Three Council members -- Raymond Koskie, Kalmen Kaplansky, and Diane Bellemare -- said in a comment on this issue that "it does not appear that the Council has adequately examined and considered the many negative and possibly ruinous consequences that could result for employers and workers in a number of industries."

They also said that they "look forward to a future in-depth report of the Council that will examine these and other issues in greater detail."

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PR86/14

COUNCIL URGES REFORM OF ECONOMIC, SOCIAL POLICIES

OTTAWA -- The Economic Council of Canada called today for "substantial, fundamental reform" of federal policy on financial institutions, taxation, social policy and health care.

The Council's Twenty-Third Annual Review of the economy, made public today, urges broad reform of the financial system rather than piecemeal efforts.

It also says that incentives introduced in the last 10 years have made the tax system "capricious," discriminating against some industries and taxpayers.

Social policy changes should be comprehensive, including every tax or transfer program affecting a particular group of people. And provincial governments should attempt "controlled experimentation" with better health care methods to limit spiralling costs and improve efficiency.

Policies in these four areas are "no longer in tune with the times," the Council says. In many cases, they "impair economic performance because they box people into old ways of thinking and doing."

The growing importance of world economic developments underline the need for an "overall domestic and international coordination of effort."

"Times are changing," says Council Chairman Judith Maxwell. "The pace is accelerating. Most Canadians will feel pressure to change in the next few years. But this will happen against a background of steady economic growth."

The Council's basic projections indicate the economy will grow at an average of 3 per cent a year for the next five years and at an even higher rate in the early 1990s. Growth in the late 1986-90 period will be fuelled by consumer spending and residential and non-residential business investment.

The inflation rate will remain low, averaging less than 3 per cent over the next five years. In the same period, unemployment will hover in the 9 per cent range, gradually falling to less than 7 per cent in 1996.

The basic projections are a "conditional forecast," the Council says, reflecting what has happened in the past and an assessment of domestic policies, developments in the United States and other trading partners, and commodity prices.

The Council also looked at what would happen if there is higher growth or lower growth than the basic projections. In the high-growth case, the economy expands more rapidly and unemployment and the federal deficit decline. The jobless rate, inflation and the deficit rise under the low-growth scenario.

Freer trade could stimulate economic growth while "the spectre of rising protectionism" could reduce it, says the Annual Review. The Council found that a 20 per cent U.S. import

surtax, accompanied by retaliation from other countries, "could have a drastic impact on Canada's growth and result in hundreds of thousands of lost jobs."

Even with steady economic growth nationally, the outlook is clouded for the West and Atlantic Canada.

The Council report notes that "the slide in energy and other commodity prices is threatening to exacerbate the regional stresses within this country."

Without a quick recovery in commodity prices, "much of Canada's economic growth will occur in the central provinces."

Some of the gains from lower energy prices in central Canada will spill over into other provinces over time. But regional problems will remain for some time.

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News Release

Communiqué

DO NOT RELEASE BEFORE
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NOVEMBER 13, 1986

PR86/16

COUNCIL PROPOSES SWEEPING REFORMS FOR FINANCIAL INDUSTRY

OTTAWA -- A plan for sweeping reform to prepare the financial system for the 1990s was unveiled today by the Economic Council of Canada.

The Council released a statement which proposed a new regulatory system, greater enforcement powers for regulators, some reorganization of financial institutions, and increased consumer protection.

These proposals would boost public confidence in the financial system, improve efficiency and enable financial firms to adapt to the changing needs of Canadians in the next decade, says the statement. If carried out, these changes would "affect the operations of every sector of the financial industry."

The Council will publish more detailed research on the financial system in coming months. The 18-month study was launched because of widespread changes in financial services and the collapse of some financial institutions. These developments raised questions about the soundness of the financial system and the scope for competition.

Competition and Solvency: A Framework for Financial Regulation, Ottawa, Supply and Services Canada, (Cat. No. EC22-134/1986E, \$4.95 in Canada and \$5.95 in other countries).

"Efficient capital markets are a key element in a healthy economy," said Judith Maxwell, Council Chairman.

The statement spells out the Council's policy proposals and evaluates some of the findings of recent reports of the federal government, House of Commons and Senate committees, and other federal and provincial task forces.

The cornerstone of the Council's reform package is a new framework for regulating the financial industry. Here are the basic proposals:

-- Institutions would be limited to one major function, such as banking or insurance, and each would fall under a single regulatory authority. Each would have their own base of equity capital, making it easier to regulate for solvency.

-- Diversifying into other functions would be allowed through financial holding companies. These companies would bring banks, trust and insurance companies, and securities firms under one umbrella.

-- For the first time, there would be a legal definition of banking. Every institution providing "means of payment" -- such as deposits which can be withdrawn on demand or transferred by cheque -- would be considered a bank. This would affect trust companies, mortgage loan firms and financial co-operatives.

-- Co-operatives and caisses populaires would become a special category of bank -- co-operative banks. Local financial co-operatives would remain under provincial jurisdiction -- only central organizations would have to abide by federal rules.

-- Banking would continue to fall under federal jurisdiction. Most provincial responsibilities would remain unchanged. Any changes prompted by the new system would have to be negotiated between the two levels of government.

-- More generally, the Council recommendations call for a clarification of the division of responsibilities and an end to regulatory overlap.

-- Regulators should have greater power to monitor and enforce legal provisions.

Basically, regulators would gain new powers and would be able to focus on one function -- banking, trust, insurance, or security -- where they have knowledge and experience. The Council said this would lead to better regulation than if they were asked to supervise several financial functions.

The advantage of the new system, the Council said, is that it would give "individual financial institutions great flexibility in meeting the various financial requirements of their clients."

Another advantage is that regulators would have an easier time ensuring that firms are solvent because they would be responsible for one major function only.

At one time, the Council said, the chartered banks, the trust companies, the insurance companies and the securities industry were each separately regulated and there was little overlapping of functions.

The walls between these financial functions began crumbling because of a variety of developments. These include new financial techniques, the emergence of conglomerates, more sophisticated consumers, and stronger links among financial markets in countries round the world.

The Council said that "public confidence in the system as a whole remains strong." But it also noted that the large number of failures of financial firms in recent years "points to serious underlying problems in the system as it now exists."

Various federal and provincial committees or government agencies have tackled these issues in the last couple of years. But the Council judged that some of their solutions either had drawbacks or did not go far enough.

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PR86/17

BROADER CONSUMER PROTECTION RECOMMENDED

OTTAWA -- New policies to broaden consumer protection in the financial industry were proposed by the Economic Council of Canada today.

The Council said in a statement that life and general insurance companies and investment dealers should be required to develop consumer protection plans. And financial planners, investment counsellors, and lawyers handling estate and trust accounts would have to meet minimum standards under a licensing agreement.

As well, the Council recommends steps to strengthen the role and responsibility of auditors in the financial system. They should be required to report to regulators any situation that may threaten, even in the distant future, the solvency of the financial company they are auditing, the statement said.

These are among suggestions in a Council policy document urging fundamental reforms in the financial industry. The statement is based on 18 months of research and an evaluation of other recent federal and provincial studies of the financial system.

"In the context of a fast-changing financial world, the maintenance of confidence and of consumer protection is of paramount importance," the Council said.

As one measure to protect consumers, the Council said that the existing insurance coverage of deposits up to a maximum of $60,000 should be maintained by the Canada Deposit Insurance Corporation. A more generous limit would apply to deposits forming part of a Registered Retirement Savings Plan.

However, the Council added that as a general rule, government should not provide a guarantee to uninsured depositors.

When financial disaster looms, governments might consider taking over the failing financial institution or helping it merge with another company. But "shareholders should bear at least some of the costs of the mismanagement of the institution.

Along with deposit insurance, consumer protection should include other financial activities, the Council said. One step would be to encourage life and general insurance companies to set up their own consumer protection plans.

Some consumer plans have already been introduced, the statement noted, but they should be strengthened and well-publicized.

Auditors would be required to report signs of financial abuses or concerns they had about the health of the institution they are auditing. They should be supported by stronger internal audit committees within financial institutions.

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PR86/18

CONFLICT-OF-INTEREST RULES PROPOSED FOR FINANCE INDUSTRY

OTTAWA -- The Economic Council of Canada has called for strengthened rules to deal with conflict-of-interest and concentration of ownership in the financial industry.

The Council said in a statement today that these rules are essential to prevent "harmful transactions that endanger the solvency of institutions or the fair treatment of consumers."

The statement outlines a series of measures including a ban on loans to company directors and some shareholders, disclosure to customers of major conflict-of-interest situations, and ownership restrictions in large financial institutions or holding groups.

A key provision would require widespread ownership of large firms with assets of more than $10 billion in Canada.

As for foreign companies, they would be allowed to enter gradually all financial sectors provided Canadian firms had the same rights in those foreign countries.

The policy statement follows an 18-month study of the financial system by Council researchers. The research findings will be published separately in coming months.

Along with these proposals, the statement recommends a new system which would improve regulation and allow firms to diversify into other financial sectors through holding groups.

But diversifying can lead to conflicts-of-interest and self-deals - such as a trustee taking advantage of a trust for his own benefit. Such actions can hurt minority shareholders and depositors.

To handle ownership problems, the Council proposes that no single person or company own more than 10 per cent of the capital of an independent financial institution or holding group with more than $10 billion in assets in Canada.

The owners of institutions or holding groups with more than $10 billion in assets as of January 1, 1987 would not have to divest themselves of their holdings because these were built up under previous rules. But equity issues to finance further growth would have to stick by the 10 per cent rule.

The statement said the Council set the $10 billion cut-off point because there are some advantages in having few owners in smaller institutions.

The Council proposed several other measures to prevent concentration of ownership including a recommendation that any purchase of more than 10 per cent of a financial institution would have to receive prior approval from the regulatory authority.

As for conflict-of-interest, the statement said that no financial institution should provide financing to any director or manager of the company.

As well, each firm should let their customers know about major conflict-of-interest situations. And no financial holding group should have a non-financial company as a subsidiary unless the firm is supplying related services, such as data processing.

The reason for that, the Council said, is that a financial company's finances can be strained in an effort to bail out a non-financial subsidiary. It can also lead to a misuse of financial resources, if the non-financial subsidiary benefits from a favourable treatment.

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News Release

Communiqué

DO NOT RELEASE BEFORE
3:15 P.M. (EST),
DECEMBER 22, 1986

PR86/23

COUNCIL OUTLINES FRAMEWORK FOR PUBLIC CORPORATIONS

OTTAWA -- The Economic Council of Canada has proposed a framework to guide governments over the long haul in deciding when and how to use public corporations in the economy.

The framework is contained in a report released today, which deals with such issues as the privatization of Crown corporations, accountability and control, and the advantages of government enterprise.

The report, entitled Minding the Public's Business, notes that public enterprise plays an important role in the economy, particularly in the electric power, transportation, communications, and mining industries. It accounts for 26 per cent of net fixed assets in the economy.

While government corporations have done much to develop this country, "Canadians should not be enslaved by their history," says the report. The role of Crown corporations in today's world should be looked at according to current economic and social needs.

Minding the Public's Business, Ottawa, Supply and Services Canada, (Cat. No. EC22-135/1986E, $10.95 in Canada and $13.15 in other countries).

The Council set out to answer several basic questions in the report, including why the government intervened in specific areas and whether the reasons for creating a public corporation are still valid.

As well, it considered whether public corporations are the right choice to solve particular problems and whether the management and control system in government is good enough.

In deciding whether to set up a Crown corporation, governments should base their choice on a hard-headed look at the alternatives, the Council says. These alternatives include contracting-out, subsidies, and regulation.

Government enterprise is the best solution where policies based on subsidies, contracts, or other arrangements with private firms do not work as well. A good example is the electric power sector, where creating a public corporation meets the twin objectives of controlling a monopoly and guiding investment activities.

As well, governments have had to create Crown corporations to handle specific problems, such as Saskatchewan's dispute with the federal government in the early 1970s over Ottawa's right to tax the province's royalties from potash production.

Still, in many cases, subsidies and other short-term arrangements can lead to better results, especially if private firms are required to bid competitively. There is evidence that a private firm can fund an urban transit system under contract at a lower cost than public corporations.

In rapidly changing industries, firms may perform better if they are not tied to the government.

In addition, privatization may encourage competition. The Council suggests this would be the case if Air Canada were sold to the private sector.

Mixed public/private corporations have a limited role at best, the report says, because the government's public-policy aims may clash with the interest of private shareholders.

The report points to a number of areas where a public corporation is not the best tool for solving a particular policy problem. In some cases, the original reasons for setting up a corporation have disappeared. In others, public ownership has involved major economic costs.

To deal with this, governments can simply close down the operation, as federal authorities did with Lotto Canada. Or a government department can absorb the corporation. Or the state can sell its holdings to private interests.

If the state decides to sell a Crown corporation, it should make sure it doesn't lose the benefits of privatization by imposing restrictions on buyers or share-ownership that may prove economically costly, says the report.

Where shares are to be sold widely, governments should sell shares in stages, finding out what the market value is from an initial offering.

To strengthen accountability and control, the report urges a clear statement of objectives from the government and steps to strengthen boards of directors so they have greater autonomy.

Three Council members -- Kalmen Kaplansky, Diane Bellemare and Pierre Fortin -- have written a dissenting statement saying that the report's conclusions have "emerged from narrowly based economic analysis and trendy neo-conservative views."

They say that "we cannot accept the general tone of the report and, in particular, the recommendations for privatization of Air Canada, Petro-Canada, and urban transit, or the dismantling of CN."

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Communiqué

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PR86/24

SALE OF AIR CANADA AND PETRO-CANADA PROPOSED

OTTAWA -- Air Canada and Petro-Canada should be sold to the private sector, says the Economic Council of Canada.

As well, the Council says that more companies should be allowed to carry rail freight, and there should be fewer restrictions on competition in the provincially run telecommunications industry in the Prairie provinces.

These are some of the recommendations in a wide-ranging report on the role of government enterprise in the Canadian economy. The report was released today.

The Council says some public corporations still serve a useful purpose while others should be sold or overhauled to fit the changing needs in this country.

Along with recommendations on specific corporations, the Council report proposes ways to give Crown firms more autonomy, while strengthening government control over policy matters.

The purpose of the report is to spell out a long-term strategy for governments faced with pressures to sell, create, or reorganize Crown corporations.

On Air Canada, the report says that "public ownership is no longer required to meet the traditional public-policy objectives underlying federal air policy." In fact, government ownership could be a barrier to an efficient air transport system, because governments might protect the national carrier or make certain concessions to it in the domestic market.

The report says that "there is some evidence that throughout the 1960s and 1970s, Air Canada's performance lagged behind that of its private-sector counterparts," partly because of government policy requirements.

Under the changing regulatory system, Canadian air carriers will have to operate in a much more competitive North American market. As a private corporation, Air Canada would be better able to meet these new challenges.

So, the Council recommends privatizing Air Canada. At the outset, shares should be sold widely to Canadians only. This would permit broad share-ownership by Canadians and keep Air Canada in Canadian hands.

As for Petro-Canada, the report says that the state-owned oil company's conventional activities such as owning retail outlets, could have been handled by private firms.

At times, government intervention may be necessary in certain high-risk activities, such as frontier oil exploration and development. Governments could help create consortia with public and private participants to carry out exploration and development rather than use a Crown corporation. Once these projects are on their feet, the government can pull out.

As with Air Canada, the Council recommends selling Petro-Canada through a broad share-offering, initially only to Canadians. But there would be no specific legal limits on individual shareholdings.

Under the current rail system, there is little real competition in handling freight. So the Council proposes that the federal government create opportunities for new firms to compete for freight business.

One way to do this would be to set up a new public track authority that would take over and maintain CN's track.

Then, other companies would have a chance to carry freight and compete with CN and CP, using publicly owned track. "With CN as a truly commercial corporation, there would be no need for continuing public ownership," the Council says.

In telecommunications, the Council says there is room for more competition in the Prairie provinces, where governments own the main telephone companies.

Technical changes in the last 20 years raise doubts as to whether monopolies are needed in many aspects of telecommunications, the report says. The Prairie provinces have been slower than other parts of the country to permit competitive services.

For that reason, provincial governments in the Prairie provinces should reduce regulatory barriers that limit competition in telecommunications, the Council says.

There is also evidence that contracting out to private firms leads to lower-cost urban transportation services, the report says. It recommends that provincial and municipal governments explore opportunities for contracting out transit service to private firms. These governments should redesign subsidies that discourage contracting-out.

The report favours a number of the provisions in a federal bill on VIA Rail introduced in the last parliamentary session. The Council also proposes competitive tendering by VIA Rail to reduce the passenger-train corporation's dependence on CN and CP Rail.

Among other findings, the Council concludes that government enterprise is the best approach for electric power systems. That is also true where the government finds itself in a situation in which it will have to provide substantial support over the long term -- the creation of the Cape Breton Development Corporation is an example.

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Communiqué

DO NOT RELEASE BEFORE
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PR86/25

STRONGER CONTROLS RECOMMENDED FOR CROWN CORPORATIONS

OTTAWA -- Federal and provincial governments should strengthen Crown corporations by spelling out objectives clearly, giving boards of directors greater autonomy, and improving the appointment system.

These steps, proposed by the Economic Council of Canada in a report released today, are designed to improve management and control of public corporations. The Council has focused on these issues because it believes that Crown corporations will continue to play a major role in the economy and in public policy even after the current wave of privatization.

In general, governments have not made plain what they expect of their Crown corporations. So it has not been possible to develop clear performance standards that could be used to evaluate these publicly owned organizations.

"A major requirement, in our view, is a clearer and more rational division of responsibilities between government and the boards of public corporations," the report says.

"Where responsibilities are unclear, there cannot be effective accountability. And where accountability is weak, there will be little incentive for a high level of performance."

When roles and responsibilities are unclear, ministers and bureaucrats become implicated in the activities of the corporations they are required to monitor. This does not contribute to effective monitoring or responsible management.

To deal with these problems, the Council recommends that governments table a statement of objectives in the legislature for all Crown corporations.

The statement would try to resolve conflicts between commercial and non-commercial objectives. Any changes would also have to be tabled as amendments. As well, the report suggests that the statement should be reviewed annually with a thorough re-evaluation every three to five years.

The board of directors can play a major role in dealing with questions of accountability and control, the report says.

It should have the same legal responsibility as private boards under the Canada Business Corporations Act -- to "act honestly and in good faith with a view to the best interests of the corporation." The "interests of the corporation" would be based on what is in the statement of objectives.

The board can then press the government to make clear its objectives and reject government intervention that runs counter to these rules.

In addition, the board should have the authority to hire and fire the chief operating officer and to set salaries and benefits for senior executives. It should be allowed to develop capital and operating budgets and corporate strategies.

Boards of public corporations should not include ministers or public servants because that "creates a potential for conflict of interest."

To underline the independence of boards of directors, the Council proposes that an independent commission maintain a list of people with the knowledge and experience to serve as directors. Ministers would have to choose from the list submitted by the commission.

Control and accountability problems are better handled through strong boards of directors than through holding companies such as the Canada Development Investment Corporation, the report says. A holding corporation can reduce the importance of a board of directors.

Other proposals:

-- An agency in a central management department of government should approve all commercial investment proposals by Crown corporations. The key criterion for approval should be whether the proposed investment is commercially viable. Investments rejected on this basis could be submitted to the relevant government department to see whether they could be justified on other grounds.

-- In deciding whether to create a new public corporation and in evaluating existing corporations, governments should weigh it against competing claims for government money. They should also look at other ways of reaching the same policy objective. This review should take into account both "hidden" and direct government subsidies to the corporation.

-- The cabinet should be required to approve any move by a public corporation to create or buy a subsidiary. The subsidiary should not have powers to do what the parent company cannot do.

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Communiqué

DO NOT RELEASE BEFORE
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PR87/02

COUNCIL PROPOSES BROAD TAX REFORM PACKAGE

OTTAWA -- The Economic Council of Canada proposed today a tax reform package that would make the tax system fairer, simpler and more efficient while increasing average incomes of Canadians.

Yet the Council said in a Statement that governments would not lose revenue under its reform proposals.

The changes would broaden the tax base, lower some personal and corporate rates, shift the personal income tax to a lifetime income basis, require the tax system to be indexed, and ensure that similar types of taxpayers are taxed in the same way.

As well, the Statement recommends replacing the federal manufacturers' sales tax, altering provincial sales taxes, gradual withdrawal of some federal and provincial resource tax allowances, and a review of the municipal and property tax system.

The suggested reforms would also integrate the corporate and personal income tax systems more closely by giving dividend tax treatment to equity investments in registered savings plans.

Road Map for Tax Reform: The Taxation of Savings and Investment, Ottawa, Supply and Services Canada, (Cat. No. EC22-136/1987E, $4.95 in Canada and $5.95 in other countries).

The Statement is based on a three-year research program on capital income -- income from savings or investment. The basic research will be released separately later.

Criteria used by the Council to develop its reform proposals were equity, efficiency, simplicity, stability, and the need to hold the government accountable in a democratic society.

The current tax system, the Statement says, "tends to discourage savings and investment and to divert investment choices away from those which are the most economically sound."

The Council's recommended solutions to these problems "represent a balance of concerns for economic efficiency and growth, on the one hand, and for fairness and even-handedness, on the other."

In fact, economic simulations show that the Council's proposal of a lifetime income tax would boost investment, productivity and output, creating more jobs and raising wages and incomes.

The proposed changes would create a trade-off among tax increases and tax reductions that would leave the tax burden on each income group the same as it is now.

Capital gains would be taxed in full (and the $500,000 lifetime exemption eliminated), but the top marginal tax rates would be reduced. At the same time, the scope for registered savings would be increased to allow Canadians to average their taxes over their lifetime.

Other measures included raising the interest and dividend deduction and permitting people such as students to register their loans. Registered borrowings would allow borrowers to pay taxes on their incomes now rather than later when they would face higher tax rates.

The advantages of a lifetime approach are: an end to discrimination against saving, greater simplicity and greater scope for averaging fluctuating incomes.

Among proposals to change the corporate income tax, the Council recommended lowering the statutory tax rate and making it more uniform across industries, and setting a somewhat lower rate for small business.

In general, the Council supported plans to replace the federal manufacturers' sales tax with a value-added or business-transfer tax that would exempt capital goods. Under this approach, goods that are used in producing the final product would not be taxed.

The new tax should exempt as few consumer goods and services as possible, but there should be a personal income tax credit for poorer taxpayers. And provincial and federal governments should discuss simultaneous reform of indirect sales taxes.

Among other recommendations, the Council proposed overhauling resource taxes by gradually removing federal earned depletion and provincial processing allowances. And it urged a review of municipal taxes to see that there is a reasonable sharing of taxes and benefits among businesses and residents.

While Canada should note recent tax reforms in the United States, it should not try to reproduce them because Canadian governments face different fiscal problems, the Statement said.

The general Council aim was to develop a tax policy that would encourage the economy to grow, leaving debate about how the money should be distributed to the political process. But the Statement noted some Council members believe the tax system should be used to promote social policy or economic development goals.

Three Council members -- Diane Bellemare, Kalmen Kaplansky, and Chaviva Hosek -- took exception to the Council's research design: that is the decision to focus on tax structure and not to recommend changes in the distribution of tax burdens. They said the Statement is "based on a narrow and, in our view, erroneous concept of efficiency which totally ignores matters of distributional justice, ability to pay or public consensus."

Another member, Raymond Koskie, agreed with their comments and added that the Council should have recommended lowering the tax burden of ordinary Canadians with money gained from eliminating some current corporate and personal tax benefits. He also suggested there should have been proposals to increase investment rather than savings.

Dian Cohen, another member, said the idea of a lifetime personal income tax system "seem to me impractical and at odds with the political and economic realities of our time."

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PR87/03

NEW PERSONAL INCOME TAX SYSTEM RECOMMENDED

OTTAWA -- Canadians could expect some tax rates to fall, more scope for registered savings plans, and altered treatment of capital gains under changes to the personal income tax system recommended by the Economic Council of Canada today.

The Council also said in a Statement that the interest and dividend deduction should be raised and that borrowers should be allowed to register their loans for tax purposes.

As well, it proposed that all personal tax brackets, deductions, and exemptions should be fully indexed for inflation. In that way, governments could not rely on inflation to increase revenue.

The main thrust of these recommendations is to nudge the federal government toward a system of taxing Canadians on their lifetime rather than annual incomes. The idea is to tax those who want to save for later consumption the same as those who spend now. The present tax system imposes an extra tax on savers which is often substantial and increases with the period of saving. A lifetime income tax would eliminate this problem and would allow taxpayers to average their incomes over a period of years.

These policy proposals were part of a Council Statement which also dealt with corporate, sales, resource, and property taxes. The document is based on three years of research.

The Council Statement noted that there are concerns about the efficiency and fairness of the personal income tax and the high statutory marginal rates.

Under the current system, similar savings and investments often carry different tax rates. Interest, dividends, capital gains, and rental incomes are taxed differently. Some investments can be taxed at both the corporate and personal income levels.

A key aim of the Council recommendations is to put similar investments and savings on the same footing for tax purposes. That would mean that people would not base savings and investment decisions on where they could get the best tax break.

One Council proposal is to lower the top marginal tax rate on personal income from 34 per cent to 30 per cent. The next lowest rate should be dropped to 28 per cent.

This change would affect about 3 per cent of tax filers annually. The cost of this tax cut would be financed by an increased tax on capital gains.

The Statement also called for eliminating the $500,000 lifetime exemption for capital gains. Instead, capital gains would be fully included in taxable income, except for capital gains on principal residences. Family farms would be treated as they are now.

On the other hand, capital losses should be fully deductible from other income, the Council said.

Registered savings plan rules would be changed by lifting the dollar limit and replacing it with a contribution rate that would eventually rise to the 25-30 per cent range. Contributions would be based on total income rather than earnings only, so that income from shares could be included.

Since most personal savings are unregistered, the Council said that the $1,000 interest and dividend deduction should be raised to $2,000. Taxable capital gains and rental income should be included as part of the deduction.

For taxpayers who can't benefit from registered saving, the tax reforms would permit "registered borrowing." This would allow people such as students to declare their loans as taxable income, pay taxes now and later deduct payments on the loan for tax purposes when their incomes are higher. It would give borrowers an additional option if they felt it was to their advantage.

The recommendations would give Canadians greater scope to "save for a rainy day" and for old age by averaging their incomes over a period of years, the Council said.

"Through a combination of registered pensions, registered saving, and registered borrowing, the tax system would encourage taxpayers to be much more self-reliant than they can be under a system that taxes on the basis of annual income."

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PR87/04

REPORT URGES BROADER CORPORATE TAX BASE, LOWER RATES

OTTAWA -- The corporate income tax system should be reshaped by broadening the tax base and reducing statutory tax rates, says the Economic Council of Canada.

Among key proposals in a Council Statement released today are capital cost allowances that are tied closely to actual costs, adjustment of the corporate tax system for inflation, and lower and more uniform statutory tax rates.

In addition, the Council said the corporate and personal income tax systems should be more closely integrated to prevent double taxation of income of the shareholder. And firms should be allowed to carry forward losses for tax purposes indefinitely.

The corporate tax proposals, based on a three-year research program, are part of a broader tax package which includes recommendations on personal, sales, resource, and property taxes. The detailed research will be released later.

The Council said that the corporate income tax is "riddled with a variety of tax credits, allowances and deductions." They are generally designed to promote certain types of investment and to offset the impact of inflation. As a result of these

incentives, tax rates on new investment in 1985 could have varied by as much as 102 per cent to as little as a subsidy of 78 per cent.

"Needless to say, Canadians do not come out ahead if investments that are losers on the basis of business judgment are promoted to winners by the tax system."

One important step to a better system would be to lower the statutory federal and provincial income tax rate to 33 1/3 per cent and to apply it more uniformly to all industries, the Council Statement said.

For small businesses, the Council recommended that the first $200,000 of business income be taxed at an even lower rate -- 25 per cent.

Since current tax law allows firms to write off certain investments for tax purposes long before the end of their economic lives, the Council suggested capital costs allowances should stick closely to actual capital costs. They should take into account physical wear and tear, obsolescence, and the current costs of replacing an asset.

In addition, capital cost and inventory allowances would be allowed to accelerate at a certain share of the inflation rate as long as inflation remains under 5 per cent.

Taking a step further, the Council recommended indexing the entire corporate tax system for inflation. At the very least, the Statement said, there should be a contingency plan to take effect when inflation rises above 5 per cent for a prolonged period.

To integrate the corporate and personal income taxes, the Council proposed setting up a "capital component" in registered savings plans. That would include capital gains and dividends from common shares of taxable Canadian companies. The capital component would be eligible for a dividend tax credit upon withdrawal.

As well, corporations would be allowed to carry forward losses with interest until they had taxable income. Current time limits prevent many companies from taking advantage of these tax allowances.

The overall effect of these reforms would be to reduce the role of the corporate tax as a tool to influence where and how money is invested. It would become a basic withholding tax, indexed for inflation and linked to personal income tax.

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News Release

Communiqué

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PR87/06

REPORT HIGHLIGHTS KEY ISSUES IN FINANCIAL DEBATE

OTTAWA -- Market concentration and federal-provincial relations are among key issues in the current debate on financial regulation highlighted in a new Economic Council of Canada report.

The report, released today, says that growing domestic competition in financial services has already reduced the market power of the largest firms.

And it indicates that the unclear division of powers between federal and provincial authorities hampers Canadian banks and other financial firms in their drive to maintain world-class status.

The report summarizes research -- much of it new evidence -- that led to a Council Statement on financial institutions, issued last November (see chapter 7 in the new report). These proposals touched on regulation, diversification of financial firms, conflict of interest and other questions.

A Framework for Financial Regulation, Ottawa, Supply and Services Canada (Cat. No. EC22-137/1987E; $8.95 in Canada and $10.75 in other countries).

Release of the new research findings comes as Parliament considers legislation beginning the process of overhauling federal law on banks and other institutions. As well, the Ontario Securities Commission has just tabled new regulations aimed at opening up the province's securities industry.

The Council report notes that the nine largest financial holding groups control 10 per cent of assets of financial institutions, 12 per cent of the deposit market and 20 per cent of the mortgage market. However, they have not yet had a significant impact on overall market concentration.

The Council says that market concentration has declined in recent years in most financial markets -- the mortgage market is an exception. For instance, the four largest institutions accounted for about 48 per cent of deposit-taking in 1984, a 6 percentage point drop from 1979.

In addition, the four largest domestic personal and commercial lenders accounted for almost 63 per cent of that market in 1984, down from 70 per cent in 1979.

These figures indicate a high level of concentration compared to most industrial sectors. The trend is downward, even with the growth of financial holding groups and a number of mergers of institutions over the past five years.

On regulation, the report stresses that there should be a clear sharing of responsibilities between the two levels of government to avoid overlapping regulation. Different rules on solvency and competition can be costly.

After reviewing the constitution and major court cases involving jurisdictional issues, the report notes that the federal Parliament has authority over banking and has the power

to delineate the scope of their functions. But Parliament has not defined banking and it has not "made full use of its powers to regulate banking."

"Various institutions carrying on similar financial activities are regulated at the federal or provincial level, or both."

This means that financial firms are not operating on a "level playing field," the report says. For example, banks currently have to meet certain requirements for monetary reserves while other deposit-taking firms don't.

The lack of a clear division of responsibilities is a major factor in the dispute between the federal and Ontario governments over bank trading in government securities.

The research report also touches on such issues as the financial needs of small companies, access to services in rural areas and small centres, and self-dealing.

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News Release Communiqué

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PR87/07

HOSPITAL COSTS MAY RISE FASTER

OTTAWA -- Hospital costs threaten to increase faster in coming years unless there is an improvement in hospital productivity.

Economist Ludwig Auer says in a study, released today by the Economic Council of Canada, that hospital productivity has shown little improvement over the last 20 years.

But costs have risen rapidly in that period -- about 15 per cent a year. While general wage and price inflation accounted for a large part of the increase, more intensive care was also a major contributor.

A declining birth rate helped offset the growing number of elderly admitted to hospitals in the 1960s and 1970s. But the birth rate has levelled off. So costs can be expected to grow more rapidly as the aged increase in number unless productivity picks up.

Auer calls for closer monitoring of productivity and costs of all hospital services ranging from the nursing department to administration.

L. Auer, Canadian Hospital Costs and Productivity, Ottawa, Supply and Services Canada (Cat. No. EC22-138/1987E; $8.95 in Canada and $10.75 in other countries).

In fact, he says there is an "urgent need" for a cost-benefit analysis of surgical techniques and alternative treatments. For example, this could involve a comparison of costs and benefits of kidney transplants, renal dialysis and long-term bed care for kidney disease.

But the author points out that cost and productivity problems are not uniquely Canadian. In fact, the Canadian health care system stacks up well compared to those of other major industrialized countries, such as the United States.

The Auer report is an in-depth study of hospital costs and productivity between 1960 and 1980, based on hospital data provided by Statistics Canada and Health and Welfare Canada.

Provincially, hospital operating costs varied as much as 40 per cent in the 1960s and 1970s. Differences in hospital admission rates and in the extent of patient services were major factors.

Admission rates ranged between 25 per cent below the national average in Quebec to 25 per cent above the average in Saskatchewan. By contrast, Quebec was highest in service intensity -- the amount of hospital services per patient -- while Prince Edward Island was lowest.

Despite these variations, there was little difference in life expectancy among the provinces.

Costs per patient rose steadily during this period, due largely to wage and price inflation but also to an increase in services. These services ranged from radiological examinations to the time nurses spent per patient.

This more intensive service is one of the reasons for slow productivity growth.

Auer looks at a number of cost control methods used in the United States and suggests it might be worthwhile trying them in controlled experiments in this country.

For instance, he notes that a system designed to curb spending by basing payments to hospitals on a nation-wide accounting system for diagnosis and treatment had a significant impact in the United States. A similar accounting system could be used on a test basis for monitoring Canadian hospitals.

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News Release Communiqué

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PR87/09

HEALTH SYSTEM NEEDS INNOVATION: FORGET

OTTAWA -- The Canadian health care system needs a dose of innovation to improve service quality, consumer satisfaction, and effectiveness, says Claude Forget, a former Quebec social affairs minister.

Forget, who also headed the recent federal Commission of Inquiry on Unemployment Insurance, suggests that one approach would be to pay groups of doctors lump sums to "keep Canadians healthy."

This "capitation payment" -- a payment per patient -- would be an incentive for doctors to manage resources wisely and would give consumers some clout with regard to how health services are developed, he says.

But William Glaser, a professor at the New School for Social Research in New York, says that experience with a somewhat similar system in the United States indicates that financial savings may not be as great as once expected.

<u>Aging with Limited Health Resources: Proceedings of a Colloquium Held in Winnipeg, May 1986</u>, Ottawa, Supply and Services Canada (Cat. No. EC22-139/1987E; $9.95 in Canada and $11.95 in other countries).

"The rest of the world sees little reason for Canada to make fundamental changes," he says.

Their comments came in separate papers included in a report entitled Aging with Limited Health Resources, released today by the Economic Council of Canada.

The report sums up the proceedings of a colloquium sponsored by the Council in Winnipeg in May 1986. Other organizations participating in preparations for the colloquium were the Canadian Medical Association, the Canadian Hospital Association, the Canadian Nurses Association, and Health and Welfare Canada.

Forget, a partner in Secor Inc. of Montreal, says that "Canadians are living on borrowed time as far as the organization of our health care services are concerned."

The main threat is not health care costs, because government controls have been strong enough to prevent them from exploding. But "what may be at risk is effectiveness and consumer satisfaction."

While most Canadians are happy with Canada's health insurance system, Forget says many consumers also feel powerless to influence the development of health services. And there is little encouragement for innovation.

He rejects user fees and the privatization of hospitals but suggests the experiment with Health Maintenance Organizations in the United States could be adapted here.

Payment would be made to such groups based on the number of patients they have. Consumers wanting new or better services

could switch to another medical group, although they would have to stick with the group for a certain period of time.

The Council report also looks at such issues as the demand for and supply of health care services, advances in medical technology, bioethics, alternative ways of providing health care, and preventive care.

Among the highlights:

-- David Banta, a consultant with the World Health Organization in the Netherlands, suggests that society should examine new medical technologies to see whether their benefits are worth the costs.

-- Roger Evans, a research scientist at the Battelle Human Affairs Research Centres in Seattle, defends heart transplants but calls for a partnership between the medical profession, policy makers, and the public in deciding what medical treatments are most appropriate.

-- Winnipeg researchers Noralou Roos, Evelyn Shapiro, and Betty Havens recommend limiting the supply of doctors and investigating why some physicians hospitalize their patients more than others. They indicate that rising hospital costs can be partly traced to these two factors.

-- Carol Buck, a professor at the University of Western Ontario, says the evidence is not clear that dietary changes, exercise, and abstaining from alcoholic beverages prevent cancer and heart disease. There is stronger support that stopping smoking helps in fighting these diseases.

In closing comments, Judith Maxwell, Economic Council Chairman, says it is clear that there will be a rising demand for health care as Canada's population ages.

"We have the time to plan and adapt our system. It would be a disgrace if we allow the problem to become a crisis."

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News Release Communiqué

DO NOT RELEASE BEFORE
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JUNE 11, 1987

PR87/10

COUNCIL PROPOSES NEW TECHNOLOGY PLAN

OTTAWA -- The Economic Council of Canada today called for a two-pronged attack on the technological gap between Canada and other major industrial countries.

First, says the Council in a policy statement, there must be a national commitment by government, industry, and labour to more rapidly adopt new technologies. Failure to act would mean "a loss of prosperity and jobs."

But hand-in-hand with this approach must be innovation in how workers adjust to change. New technology will not be able to increase productivity, competitiveness, incomes, and jobs unless there is a "well-trained, flexible, and committed work force."

Based on these twin pillars, the Council Statement spells out a new policy framework for dealing with "an urgent national problem of major proportions" -- the technological gap with other countries. The Statement stems from a major research project on the impact of technology on Canadian industry and the work force.

Making Technology Work: Innovation and Jobs in Canada, Ottawa, Supply and Services Canada (Cat. No. EC22-142/1987E; $4.95 in Canada and $5.95 in other countries).

The policy framework sets out five objectives urging Canadians to "openly embrace" new technologies; to develop a well-trained and committed work force; to design an adjustment policy to ensure benefits are shared; to innovate in organizing and developing the work force; and to create "a more constructive industrial relations climate."

These objectives lead to specific proposals ranging from new approaches for funding training to making the federal science ministry a senior post as a sign of national will.

"Ultimately," says the Council, "the competitiveness of Canadian business and growth in living standards depend critically on the ability to use technology."

The Statement says that technology improvements in the 1970s boosted productivity and led to higher incomes and increased demand for goods and services. The resulting employment gains were more than enough to offset jobs lost through new technology.

But Canada's major trading partners are making greater gains and that could hurt this country's competitive position, leading to job losses and lower incomes.

To give an idea of the technology gap, the Council points out that we are behind not only Japan and the United States but also a number of European countries in adopting such new technologies as robots and computer numerical control machines.

An additional problem is that, in general, Canadian firms are not using machinery as effectively as Japanese companies because the Japanese work force is more highly trained and more involved in implementing new high technology systems.

The Council carried out a survey of close to 1,000 firms across the country to determine what impact computer-based technologies had on Canadian industry in the early 1980s and what the outlook is in the 1985-90 period. It is the most comprehensive survey of its kind anywhere in the world.

About 75 per cent of these firms introduced computer technology in the early 1980s.

Office automation accounted for 64 per cent of technological innovations in this period and will dominate in the last half of the decade as well. But such process technologies as computer-aided manufacturing will gain a larger share in coming years.

Technological change hit the regions unevenly. In terms of the percentage of companies and workers using computer technology, the Western provinces led in 1985. In terms of spending on computers in relation to sales, Ontario and Quebec led.

Ranking high as innovators were the communications and other utilities, wholesale trade, finance, insurance, and real estate, and business services industries. Among the least innovative were leather, textiles, and clothing, wood and furniture, and food, beverages, and tobacco.

The Statement says that high-tech occupations such as engineers and computer programmers grew rapidly in the 1970s while jobs such as clerks and miners declined.

Looking to the future, Council research indicates technology may lead to an overall increase in jobs in such occupations as sales, the professions, processing, management, and administration. The sharpest declines may be in the machining and clerical occupations.

At this time, there is no conclusive evidence in Canada that high technology is eroding the middle class -- creating high- and low-level jobs and eliminating middle-income jobs. But the Council says it is still too early to make a final judgment because this country is only in the early stages of the current technological revolution.

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PR87/11

TRAINED WORKERS, HIGH-TECH KEY TO GROWTH

OTTAWA -- The key to future prosperity in Canada is a well-trained, committed work force wedded to new technologies, says the Economic Council of Canada.

This calls for widespread change in the way we organize work, develop new skills, and conduct industrial relations, says a Council policy statement released today.

The Statement proposes a stepped-up program of training workers for technological change. And it says there must be much broader efforts throughout industry to develop close labour-management consultation on new technologies.

The policy document is based on in-depth research on the impact of technology on Canadian industry and the work force. The research results will be published separately later this summer.

Canada faces a major task of adjusting to technological change. While the pace of change has been rapid in recent years, it is expected to speed up in coming years. The number of Canadian workers using computer technology will more than double in the 1985-90 period.

The Council document notes that some jobs are created and others lost as a result of computer-based technological change. But standing still would mean less prosperity and fewer jobs.

New technologies increase productivity, raise incomes, stimulate demand for more goods, and create more jobs. Overall, this tends to offset jobs lost through technical change.

But the impact can be severe on those affected by change.

So the Council Statement looks at how technological innovation can be introduced successfully, bringing about higher incomes and reducing the human cost of change.

Successful innovation, says the Council, means more than new equipment -- it also means organizations developing an involved and well-trained work force.

"In Canada, while almost everyone agrees that people are the key, too few organizations live by that principle."

In fact, Council research indicates that, in general, there is "an overall undertraining in response to technological change."

For instance, recent evidence suggests Canadian workers get only a fraction of the time spent by Japanese employees in in-plant training.

Canadian firms may have been able to manage with a minimum of training in the early 1980s because change centred mostly on office machines with little impact on basic skills. But there will be a much greater demand for training as companies turn to larger-scale, more-integrated systems later in the decade.

While training is important, it is only one step to better results with new technologies. There must also be innovation in the ways people work. That includes re-designing jobs and ensuring workers share in deciding how technical change will be introduced.

A Council survey of 1,000 firms revealed that many Canadian firms are experimenting with organizational innovation, such as joint labour-management committees, between 1980 and 1985.

But there are signs that workers do not participate in a major way in decisions on technological change.

As for designing jobs, the Council survey reported that most companies stuck to traditional methods. A relatively small minority tried such ideas as exposing workers to a broader range of tasks, giving them added responsibilities, or offering them pay incentives for increased knowledge and skills.

Good industrial relations is another key to successfully introducing technological change. Unions and their members are not opposed to change in principle, the Council says, but there has been little effective collective bargaining on the issue.

Part of the problem is that federal law and legislation in some provinces does not make bargaining on technology mandatory. The Council urges that governments use their labour legislation to encourage bargaining on technological change.

In addition, the Council document makes proposals on such issues as paid educational leave, vouchers for job training, and extended training leave and training trust fund plans.

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News Release

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PR87/12

CONCERNS RAISED ON WOMEN IN HIGH-TECH JOBS

OTTAWA -- There are "some ominous causes for concern" about jobs for women in the high-technology sector, says the Economic Council of Canada.

The Council notes in a policy statement issued today that at first glance women appear to have gained "their fair share of new high-tech jobs."

But female employment in the high-tech sector in recent years has been heavily concentrated in retail trade; finance, insurance, and real estate; and services to business. There is a high proportion of clerical workers in these industries.

"There are signs, therefore, that the disturbing traditional tendency towards the 'ghettoization' of women in clerical occupations is continuing in the high-tech sector."

In addition, the average income for a range of clerical occupations in the high-tech sector in 1980 was consistently below that in the low-tech sector.

The Council document includes both the users and the producers of high technology in its definition of the high-tech sector.

Turning to young people, older workers, native people and the disabled, the Statement says technological change may add to their employment problems. For example, native people often live in remote areas far from the new technologies.

These groups face a common drawback -- inadequate education. Drop-out figures for students in high school are high. Technological change reduces their chances of getting jobs.

To combat this problem, the Council says there must be a concerted effort to raise the educational level of workers.

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News Release

Communiqué

DO NOT RELEASE BEFORE
9:15 A.M. (EDT)
JULY 7, 1987

PR87/14

JOB OUTLOOK GOOD FOR MANY OCCUPATIONS: COUNCIL

TORONTO -- Jobs in computer science will grow 200 per cent while machining and related trades will be practically eliminated by computer-based change in the 1981-95 period, says an Economic Council of Canada report.

The total impact on employment, says the research report released today, will depend on how well Canadians manage innovation.

Assuming the best, employment in the business sector will grow by 12 per cent between 1981 and 1995. In the "worst case" scenario, business employment will rise only 3 per cent in that period.

Where Canada falls in this range will rest on how effectively Canadians manage technological change through retraining and education, constructive industrial relations, and adjustment assistance policies.

All will be essential to help Canadians adapt to the new occupational structure and enjoy the fullest possible payoffs from productivity growth.

Economic Council of Canada, Innovation and Jobs in Canada, Ottawa, Supply and Services Canada (Cat. No. EC22-141/1987E; $10.95 in Canada and $13.15 in other countries).

The main message from the Council's work is that the composition of occupations will change dramatically -- some gaining importance and others losing. Consequently, innovation will pose new challenges for Canadian industry, workers and the education system.

The research report, Innovation and Jobs in Canada, presents three scenarios for a range of occupations based on an economic model developed for the Council. And it reports other research results which led to a recent Council policy statement on the impact of technology on Canadian industry and the work force.

Using the new economic model, the Council concludes that more than 70 per cent of the total number of jobs lost through technological change in 76 occupations falls in just two groups -- clerical and machining and related trades. Occupations in sales, services, and construction trades will make the biggest gains.

The direct effect of computer-based change is to displace people in many professions and trades, says the report. However, innovation also raises productivity and incomes. This generates increased demand and more jobs, offsetting the potential loss of jobs through introduction of new technologies. In most occupations, that is enough to outweigh direct job losses.

Unlike many occupations, computer scientists will gain jobs from the introduction of new technologies as well as the general effect of increased demand.

There is also overall growth -- but less spectacular -- in such service occupations as food and beverage preparation, protective services, and construction trades. Job gains for these groups will be in the 10-20 per cent range.

Computer-based innovations will virtually wipe out some trades. Draughting and machining are prime examples. Metal shaping and forming will be particularly hard-hit with almost 98 per cent of these jobs disappearing by 1995.

Clerical occupations such as library, file and correspondence clerks will also decline, but much less sharply.

Women will benefit from growth in the sales and services occupations but they will be hurt by losses in the clerical group. Traditionally, they have been heavily concentrated in these areas.

A Council survey of close to 1,000 Canadian establishments indicates that women were more affected by new technologies than men in the 1980s. By 1985, about 16 per cent of women were working with computer technology compared to 12 per cent of men.

The report also says that university-educated people will gain most from technological change. And Canadians can count on periodic career changes, calling for retraining. That points to the need for a better-educated work force and a stronger industry commitment to retraining efforts.

In addition, the report touches on such issues as the impact of technology on specific industries, organizational change, the distribution of income, the industrial relations system, and the effect of innovations on youth, the handicapped and other groups.

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News Release

Communiqué

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JULY 13, 1987

PR87/15

TAX REFORM METHODS ANALYSED

OTTAWA -- What route should Canadians take in reforming taxation of savings and investment income?

A new research study, released today by the Economic Council of Canada, provides a solid base for debating this issue. It analyses the two main alternatives to the current system, the uniform income tax and consumption tax methods.

The study concludes the consumption tax approach is superior to a comprehensive or uniform income tax system on grounds of efficiency and simplicity.

A consumption tax is more efficient economically than a uniform income tax because it does not tax savings twice -- the original money saved and the interest earned on the savings. This double-taxation of income can discourage people from accumulating capital.

J. B. Davies and F. St-Hilaire, Reforming Capital Income Taxation in Canada, Ottawa, Supply and Services Canada (Cat. No. EC22-140/1987E; $10.95 in Canada and $13.15 in other countries).

As well, the study authors say the consumption tax can hold its own on equity grounds if equity is defined in terms of the income people receive over their lifetime.

The in-depth study was prepared for the Council by James Davies, economics professor at the University of Western Ontario, and France St-Hilaire of Mississauga, Ontario, a researcher with the Institute for Research on Public Policy.

The study findings contributed to a recent Council policy statement on the capital income tax system called Road Map for Tax Reform: The Taxation of Savings and Investment.

The current tax regime contains elements of both the consumption tax and uniform income tax systems. Moving to one system or the other would mean changes, but the authors say the changes would be less complicated if the consumption tax approach was adopted.

Basically, a consumption tax is a tax on spending rather than on total annual income. Such features of the tax system as registered retirement savings plans are steps toward a consumption tax system because these savings are not taxed until withdrawn and spent.

A comprehensive uniform income tax system would tax on an annual basis all capital income from savings and such assets as owner-occupied homes. Such income would be taxed on its real value -- current value minus inflation.

The authors say the current personal income tax system leans much more towards the consumption tax approach than the uniform income tax method.

They also say there is no reason why moving to a consumption tax system would create problems internationally for Canada. Adjustments could be made which would prevent a clash with the tax systems of trading partners.

As for simplicity, the authors note that every time savings limits are raised for registered pension plans and registered retirement savings plans, the tax system moves closer to a consumption tax regime.

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News Release Communiqué

DO NOT RELEASE BEFORE
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PR87/18

CERTAIN POLICIES SHOULD BE BEYOND TRADE SANCTIONS: COUNCIL

OTTAWA -- Canada has solid grounds for maintaining its own approach in certain areas of cultural, social, and regional development policy under a free trade deal with the United States, says the Economic Council of Canada.

The Council said in its 24th Annual Review of the economy today that both Canada and the United States should be free to pursue such policies without fear of trade sanctions.

The Annual Review stated that "regional support initiatives intended to redistribute jobs and incomes within Canada are not legitimate targets for U.S. trade actions."

And there is "no legitimate basis" for the United States to force social programs onto the bargaining table because they are not subsidies that divert trade.

As well, the "cultural industry, suitably defined, is one area where the terms of a U.S.-Canada accord must reflect Canada's sensitivities."

On regional development, the Council indicated that there should be a distinction between programs that shift jobs and incomes within Canada and those that move jobs back and forth across the U.S. border.

Under the General Agreement on Tariffs and Trade (GATT), which governs international trade, only subsidies that divert trade from another country are open to retaliatory trade action. Canada should stand by this definition, the Annual Review said.

To be ratified, the Council said, a U.S.-Canada free trade accord should satisfy Canadians on the following fronts:

-- In providing access to U.S. markets, it should take account of state and local barriers as well as federal.

-- It should spell out clearly those areas of policy, trade, and investment that are not on the bargaining table. And it should indicate where domestic institutions, laws, and regulations are beyond the reach of countervailing trade action.

-- It should clearly define those subsidies that can be attacked with countervailing actions and those that cannot because they fit the current GATT definition of subsidies that are beyond such retaliation.

-- It should contain a dispute settlement mechanism that would deal with trade irritants quickly and impartially.

A key issue in the battle against American protectionism is the definition of "unfair" subsidy in a recently passed bill in the U.S. House of Representatives. The legislation broadens the definition of unfair subsidy to include everything which is not "consistent with (U.S.) commercial considerations."

This, said the Council, is a "frontal attack on the concept of national sovereignty that is at the heart" of GATT. If carried out, these provisions could prompt retaliation and a "full-scale protectionist trade war." Under this definition, federal programs administered by the Department of Regional and Industrial Expansion (DRIE) are prime candidates for U.S. sanctions. There have already been a few cases of countervailing action against DRIE subsidies.

The Council said it is "not much enamoured by many of the regional and industrial programs now in place." It has found that "government intervention was largely unwarranted" in a number of programs.

But, in terms of the trade negotiations, the crucial question is whether an industrial program redistributes investment and jobs in Canada to reduce regional disparities or whether it supports activities which could not survive in the long run without the subsidy. It can be argued that the first type should be kept off the international negotiating table while the second kind should be open for discussion.

As for the unemployment insurance program, the Council said that Canadians pay more, overall, for their system than the Americans do for theirs, so it should not be considered a subsidy. In fact, it would make more sense to claim that the smaller American program is a subsidy to U.S. business and open to Canadian countervailing action.

Canada's health care system provides far greater protection at less cost than the American program, the Council said. Canadians, including Canadian businesses, pay taxes to finance their system and these are reflected in industry costs. So this does not amount to a subsidy.

The aim of those defending Canadian cultural programs is not to create jobs or divert trade but to ensure that there is substantial Canadian content.

So the Council said there is an argument for continued entry barriers and government regulation to protect Canadian content in the face of a powerful American cultural industry. But the Council said that legislators should be "very selective about the activities to be supported and the means of support."

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PR87/19

UNEVEN REGIONAL GROWTH MUST BE TACKLED: COUNCIL

OTTAWA -- The national economy is likely to expand steadily in coming years but uneven regional growth will be the country's major economic problem, the Economic Council of Canada said today.

The Council said a prime economic target for Canadians should be regionally balanced growth, job opportunities and social services.

The Council's Annual Review of the economy called for measures to "buttress these regional economies without impeding the longer run adjustments that domestic and international markets require."

Nationally, real economic growth is expected to average 2.8 per cent in the 1987-91 period. In the same period, unemployment should average 8.5 per cent, the inflation rate should hover around 5 per cent, and investment will be "one of the engines of growth."

But the federal deficit situation is unlikely to improve substantially before 1991.

These projections are based on assumptions about the U.S. and world economies, oil prices, Canadian tax reform, and interest rates.

Along with this base case, the Council carried out simulations on an economic model using pessimistic and optimistic assumptions about U.S. economic performance.

The Council projections do not estimate the impact of a Canada-U.S. free trade deal or increased protectionism. The possible effect of a comprehensive free trade agreement with Washington is outlined separately in the Annual Review.

The Council's basic projections suggest the economy will grow at a 3 per cent rate in 1988 with a slowdown in the 1989-90 period. The slowdown is likely because of weakness in the world economy and in domestic investment.

If the U.S. economy should perform worse than expected, the Canadian economy might pause in 1988 rather than later. That would push up unemployment and the federal deficit and reduce average growth over the 1987-91 period.

However, if the U.S. economy expands faster than anticipated, the unemployment rate would dip below 8 per cent in 1989 and the federal deficit would decline as a percentage of Gross National Product.

Overall, the economy is moving towards targets set by the Council in 1983 for employment, productivity, inflation, savings rates, the federal deficit, and social programs, the Annual Review said. But the unemployment rate and productivity goals are unlikely to be met by 1990.

A new target was added this year -- achieving regionally balanced growth, employment opportunities, and social services.

From a regional standpoint, the industrial centres of southern Ontario and Quebec have rebounded strongly from the recession of the early 1980s while the Atlantic and Western provinces are still struggling. Northern Quebec and northern Ontario are also not doing as well.

The recovery in oil prices in the last few months will help Alberta, Saskatchewan and possibly Nova Scotia, Newfoundland, and British Columbia. But solid growth in the West depends on agriculture and the outlook here is gloomier. World grain markets are clogged, keeping prices down.

World metal prices are still low and competition is strong from developing countries. That clouds prospects for parts of eastern and western Canada.

Because of the commodity price problem, unemployment in the Atlantic and Western provinces remains higher than it was in 1979 while the jobless rate in Ontario is lower than it was then.

The government is under strong pressure to spend more or tax less to help out the depressed regions, the Council said, but it has little room to manoeuvre because it is still struggling with deficits and its tax revenues from the corporate sector are expanding slowly.

As for monetary policy, the Bank of Canada has no way of applying different interest rate policies to different regions of the country.

Because the different regions are growing at different rates, there could be a risk of inflation rising in central Canada while the rest of the country struggles to climb out of the recession. However, there is no sign at the moment of another inflationary spiral.

Internationally, the debt problems of some major developing nations continue to restrict world economic growth, the Council said. A renewed flow of credit to these countries -- along with domestic reforms -- could lead them to increase imports and stimulate growth.

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ALTERNATIVE TO U.S. DEAL "CHALLENGING," SAYS COUNCIL

OTTAWA -- Negotiating a free trade agreement with the United States may be tough but the alternative is just as challenging, says the Economic Council of Canada.

The Council said in its 24th Annual Review of the economy, released today, that Canada "has no choice but to reach outward to new markets if it is to sustain economic growth."

One way to maintain growth would be through a trade agreement with the United States.

But, if that fails, Canada must stake out a place in a world of large trading blocks. And Canadian industry "must gear up to compete not only in the United States but also in more distant markets."

Collapse of bilateral free trade efforts with the United States "would be unfortunate but need not be catastrophic," the Annual Review declared.

However, if that happens, Canada should vigorously fight growing protectionism in the United States by seeking to rally strong American, West German, and Japanese support for the current round of multilateral trade talks.

Expanding markets through a comprehensive free trade agreement with the United States would generate 60,000 new jobs annually while the economy was adjusting to change, the Council said. About 20,000 people a year would be laid off.

These findings are based on economic simulations of the direct and indirect impact of an accord that would wipe out all tariff and most non tariff barriers between the two countries. One of the simulations also includes the possible impact of improved productivity as a result of free trade with the United States.

The simulations indicated that most of the jobs created by a comprehensive trade deal with the United States would be in occupations where layoffs are highest.

"This heightens the probability that most job losers would find alternative opportunities in the same or a closely related occupation," the Council said.

In a normal year, about 1.2 million people lose their jobs permanently, so 20,000 layoffs caused by free trade would not be a major adjustment.

Overall, a comprehensive agreement would boost employment, raise incomes and investment, and reduce prices nationally, the research indicated. All provinces and 29 of 36 industries would benefit.

While these views were endorsed by 22 Council members, four members took issue with these results.

Council member Dian Cohen of Montreal said the Annual Review makes a "substantial contribution" to the public debate about free trade. But she considered the numbers produced by the Council to be extreme because there is unlikely to be a comprehensive free trade deal.

"Reality will probably offer much more modest rewards and raise new problems not considered here."

In a joint comment, Diane Bellemare of Montreal and Kalmen Kaplansky of Ottawa remarked that a free trade agreement with the United States has much to offer Canada if there are appropriate safeguards and a binding dispute-settlement mechanism.

But they criticized some assumptions in the Council simulations as unlikely and unrealistic and declared that the long-term benefits of free trade depend on a full-employment strategy.

Kaplansky and Bellemare said they are concerned that "the Council again offers no solutions to the persistent and deplorable problem of over one million Canadian men and women unemployed."

In a dissent, Raymond Koskie of Toronto said the Annual Review "contains an inadequate and one-sided analysis of the free-trade question, ignores the most pressing of Canada's economic challenges -- unemployment -- and does not sufficiently or properly deal with the issue of tax reform."

The Council's approach to free trade "is neither balanced nor fair," he said. He disagreed with some of the assumptions and said that "this one-sided approach to free trade is particularly dangerous because of the very certain political costs that Canada will doubtlessly pay for a free-trade deal."

He joined with Bellemare and Kaplansky in voicing concern that the Council did not outline ways to reduce high unemployment and to develop a full-employment strategy.

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News Release Communiqué

FOR RELEASE ON
OCTOBER 19, 1987

PR87/21

WORKPLACE CHANGE IMPORTANT TO ECONOMIC FUTURE

MONTREAL -- New, more flexible ways of organizing work may be just as important to Canada's economic future as new technologies.

A research study released here today by the Economic Council of Canada says some firms have found that technological change is most effective when there is innovation in the way a firm is organized and in relations between managers and employees.

While such organizational change is spreading slowly, says author Jacquie Mansell, it promises to be the wave of the future upon which Canada must ride if it is to be part of a challenging and prosperous high-tech world.

The study points to significant gains made by Canadian companies that have carried out workplace innovations. Some firms have saved large sums of money; absenteeism has dropped; productivity has risen; and employee morale has improved.

But if these approaches are to survive and spread, there must be top-level leadership from management, labour, and government, says Mansell, a Toronto researcher and consultant on workplace change. In fact, technological change may force them to explore new methods of organizing work.

The study - Workplace Innovation in Canada - is one of the first in Canada to document the importance of organizational change. It describes new methods that enable employees to play a major role in determining how they are to carry out their work. And it gives Canadian examples, ranging from the Ford of Canada plant in Windsor, Ontario, to the City of Calgary Sanitation Department.

This research was prepared for a Council project on the impact of technology on Canadian industry and the work force. The project led this year to a Council policy statement entitled Making Technology Work, along with other reports.

The author traces the development of new ways to involve employees in decisions about how work is to be done in the office and on the plant floor. These different approaches include rotating employees among several jobs, allowing workers to carry out a variety of functions, setting up joint union-management committees, and creating "semi-autonomous work groups."

Perhaps the most radical approach is the semi-autonomous work group. Under this plan, the group is responsible for most aspects of its work - handling planning, production, and some support activities. Each group member is able to carry out almost all of the tasks.

Canada has had a good example in the Shell Canada plant at Sarnia, Ontario. Other companies such as Canadian General Electric in Bromont, Quebec; Westinghouse in Renfrew, Ontario; and Kellogg's in London, Ontario, are also combining new technologies with this style of workplace change.

This approach is well-suited to the wave of new technologies now sweeping through the economy.

While workplace innovations have produced real benefits, the author notes that current practices often stand in the way of change.

Traditionally, management acts and unions react. Collective agreements are written to spell out detailed work rules, setting boundaries on what management can do.

But this practice does not fit the system of joint control and shared responsibility that is the keystone of newer forms of workplace innovation.

Looking ahead, Mansell says that management, labour, and government need to work together to encourage workplace change.

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News Release — Communiqué

FOR RELEASE ON
OCTOBER 28, 1987

PR87/22

IMPROVED TAX SYSTEM WOULD LEAD TO HIGHER INCOMES

OTTAWA -- Canadians would enjoy higher production and incomes if their tax system was more efficient, says an Economic Council of Canada study.

The Council document, released today, says that "society is not well served when investments that are losers on the basis of business judgment turn into winners because of the tax system."

Marginal effective tax rates on investment income vary widely and often divert funds from more productive uses to less productive projects because of preferential tax treatment.

As well, there are other shortcomings in the personal and corporate income tax systems that dampen growth.

Economic Council of Canada, The Taxation of Savings and Investment, Ottawa, Supply and Services Canada (Cat. No. EC22-143/1987E; $10.95 in Canada and $13.15 in other countries).

The report, entitled The Taxation of Savings and Investment, summarizes research that led to a Council policy statement last February on capital income -- income from savings and investment. The research was carried out before the federal government released its White Paper on Tax Reform.

The Council's February statement called for a personal lifetime income tax system and for changes that would broaden the corporate tax base and lower statutory corporate rates.

Council research focused on the taxation of savings and investment because many of the weaknesses in the tax system lie therein.

On the personal income tax side, the Council found that the tax system encourages spending and discourages saving because Canadians pay taxes on their earnings and also on income earned from their savings.

So the Council has proposed a shift toward a lifetime-income tax approach that would put people who are saving money on a more equal footing with those who are spending their money now. One proposal is to raise the limit on tax-free registered savings gradually.

The Council concluded that this is fairer and more efficient. One major benefit would be increased savings available for investment in the economy.

Council simulations suggest that these changes could lead to significant gains in per-capita income.

As for the corporate income tax system, a web of tax incentives has been woven over the years to help out a variety of industries and to offset the impact of inflation.

To cope with this unequal treatment of corporate income, the Council has suggested broadening the tax base and reducing statutory rates. With rates lower, there would be less temptation to avoid taxes. The corporate share of total tax revenue would remain the same.

In addition, the Council suggested reform of the sales tax system nationally, as well as of resource and property taxes.

In recent appearances before federal parliamentary committees, Council Chairman Judith Maxwell noted that many of the elements of the federal White Paper on Tax Reform moved toward those objectives.

But she also stressed that the government must proceed with the second stage of tax reform -- changes to the sales tax system -- as well as with the stage-one reforms to personal and corporate taxes, to make long-term economic gains. The progressiveness of the tax system could be maintained by appropriately chosen sales tax credits for low-income groups.

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News Release Communiqué

FOR RELEASE ON
NOVEMBER 19, 1987

PR87/23

PUBLIC OWNERSHIP HAS HAMPERED AECL IN MARKETING EFFORTS

OTTAWA -- A new study points to public ownership as a major reason why Atomic Energy of Canada Limited has failed to market the CANDU nuclear reactor successfully in a fiercely competitive world.

The study, released today, concludes that a Crown corporation is "an unsuitable instrument" for such a technologically complex, high-risk industry.

That's because senior managers in publicly owned corporations "are unable to implement long-term market strategies." Governments, who pay the bills, limit the options available to managements of public firms.

G. Lermer, Atomic Energy of Canada Limited, Ottawa, Supply and Services Canada (Cat. No. EC22-145/1987E; $8.95 in Canada and $10.75 in other countries).

Study author George Lermer, Director of the School of Management at the University of Lethbridge in Alberta, says AECL focused its energies on the Ontario market and failed to exploit markets outside Canada, particularly in the United States.

Now, he says, billions of dollars would have to be spent to help CANDU survive until the nuclear reactor market revives, perhaps after 1995.

The case study was carried out for the Economic Council of Canada's research project on government enterprise. The project group's work led a year ago to a Council policy statement -- Minding the Public's Business -- on the appropriate role of publicly owned corporations.

Lermer says AECL's role, in its early days, was nuclear engineering rather than sales. It was set up to develop the CANDU system.

The corporation concentrated its efforts on one major buyer -- Ontario Hydro. AECL "decided to place all of its eggs in the domestic basket and to look for an occasional sale in Third World countries."

On the other hand, Westinghouse, a major American company, set the pace in the nuclear industry, selling "turn-key" or ready-to-operate power stations. It guaranteed the price of uranium under long-term contracts and entered joint ventures in Japan, France and other countries.

Canada's reactor depended on heavy-water rather than the light-water used in the major competing reactors. So providing a regular supply of reasonably priced heavy water was important to marketing the reactor.

Lermer says the "almost cavalier attitude towards the difficulty in producing heavy water reflects poorly on the whole program and on AECL in particular."

AECL stayed out of the United States and West Germany because it was convinced that industrial countries would protect their home markets. But there were possibilities for sales there and in Britain and France.

The corporation did not consider foreign markets important until the mid-1970s.

Unless AECL keeps pace with research and development efforts in other countries, even Ontario Hydro may turn to foreign producers, the study says. But increased research is expensive.

While the author indicates the odds are against the revival of the CANDU nuclear technology, he offers two alternatives for the future. One would be a marketing strategy to expand the market for CANDU -- he estimates the price tag for this approach at $6 billion over the next 10 years.

The second option would be a partnership with a foreign reactor developer, using CANDU or another nuclear technology.

If the CANDU program is allowed to wither, he suggests considering a merger of all or part of AECL with Ontario Hydro. But if the government plans to invest heavily in a push to win new reactor orders, it should consider selling all or part of the corporation to private interests.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release — Communiqué

FOR RELEASE ON
JANUARY 25, 1988

PR88/01

BETTER TAX DEAL HAS GREATER IMPACT ON YOUNG SAVERS

OTTAWA -- The older you are the less likely you are to increase your savings because of a better tax deal.

But younger age groups will boost their savings -- sometimes significantly -- because of a better after-tax return on savings.

So says a research study on the impact of taxation on savings, released by the Economic Council of Canada today. The work was carried out for a major Council project on taxation of capital income.

The study, prepared for the Council by Queen's University professors Charles Beach, Robin Boadway, and Neil Bruce, is a comprehensive look at the effect of the after-tax interest rate on savings at various age levels.

C. M. Beach, R. W. Boadway, and N. Bruce, Taxation and Savings in Canada, Ottawa, Supply and Services Canada (Cat. No. EC22-144/1987E; $10.95 in Canada and $13.15 in other countries).

It is the first study to use data at the household level for the years 1964-81 rather than relying solely on information for the economy as a whole.

Based on econometric and economic simulations, the authors found that an improvement in the after-tax interest rate will prompt younger age groups to increase their savings but this incentive declines steadily as people age. The after-tax rate of return is affected by tax rates on dividends, capital gains and interest.

The sensitivity of savings to the interest rate is particularly high for taxpayers under 30, partly because they can look forward to many years of savings for retirement.

This sensitivity to the interest rate drops with age and the savings of older persons just before or after retirement are largely unaffected because they already have their retirement nest egg. In fact, they are more likely to start spending their accumulated savings.

The authors followed this examination of the short-term impact of tax changes with an evaluation of the long-term effects of particular tax reforms.

One approach was to look at what would have happened over the 1964-81 period if the existing tax on capital income was replaced by a tax on consumer spending. Another was to simulate the effect of an increase in wage taxes as an alternative to the current tax on capital income.

In both cases, young taxpayers would have saved more in their earlier years than they did under the existing tax system. This would have continued through most of the 18-year period.

But, for people aged 52 in 1964, savings would have dropped under a consumption tax system compared to the current capital income tax approach.

The savings benefits of the wage tax change are smaller than under a consumption tax plan.

The authors also found that the benefits of removing tax measures which discourage savings are much greater during times of high inflation than they are when price increases are low.

As well, the study compares a consumption tax system with a comprehensive income tax approach in terms of efficiency and equity. The authors conclude that "consumption taxation is preferable to income taxation" on both grounds.

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release

Communiqué

FOR RELEASE ON
MARCH 9, 1988

PR88/02

STUDY TACKLES PETRO-CANADA OWNERSHIP QUESTION

OTTAWA -- The government's ties with Petro-Canada should be overhauled if the Crown corporation is not privatized, says a new study released today.

The authors, Professors Paul Halpern and Leonard Waverman of the University of Toronto and André Plourde of the University of Ottawa, recommend changes ranging from ending Petro-Canada's role in public policy making to improved federal monitoring and evaluation of the corporation's budget.

In fact, the publicly owned firm should be sold to private interests if its social role remains limited or if it could be more effectively handled another way.

But a long-range analysis of the oil and gas sector should be undertaken before the government decides to take this step, the authors say.

P. Halpern, A. Plourde, and L. Waverman, Petro-Canada: Its Role, Control and Operations, Ottawa, Supply and Services Canada (Cat. No. EC22-147/1987E; $9.95 in Canada and $11.95 in other countries).

The just-released study was prepared for the Economic Council of Canada in 1986 and was rewritten last year. The research contributed to a project on government enterprise which led to a Council report entitled Minding the Public's Business in December 1986.

The authors note that when Petro-Canada was created in the mid-1970s, its mandate included a number of social objectives. These were: stepping up Canadian supplies of oil and gas, particularly in frontier areas; increasing government knowledge of the industry to assist in policy making; and boosting Canadian participation in the industry.

In early years, the corporation stuck close to the activities outlined under its original mandate. But when it began takeovers of private oil companies, it started competing with existing firms in the refining and retailing business.

Under the National Energy Program of 1980, it gained an expanded role in increasing ownership of the domestic oil and gas industry. Petro-Canada's commercial role combined with its policy function placed it in a potential conflict of interest.

When the Conservative government took power in 1984, Petro-Canada was given a new mandate, that of operating as a commercial enterprise. But the authors note that it retained its "window-on-the-industry" function -- operating as a source of information to the federal government. Now the potential for conflict of interest is even greater.

So the study recommends the government should end this policy function.

It also calls for more resources for the federal Department of Energy, Mines and Resources and an expanded role for the Commons Energy Committee in monitoring and evaluating Petro-Canada's budget.

In addition, the authors say civil servants should not be allowed to serve on the board of directors of any Crown corporation because they would be in a potential conflict-of-interest situation.

When the government wants to signal a change in direction, it should issue a written directive. This would make clear who is responsible for the new approach.

The authors say the costs of maintaining a Crown corporation for which there is no clear social purpose are likely to exceed benefits because of the problems of monitoring, evaluation, and control.

Because of the 1984 changes to Petro-Canada's mandate, its social purpose is unclear, they say.

For that reason, the study says the government should launch a review of the long-term potential of the oil and gas industry, of public policy objectives in this area, and of various ways of achieving these goals.

If such a review concludes that social objectives are limited or that they can be achieved by means other than a national oil company, all Petro-Canada's shares should be sold to the public, the authors say.

Halpern, Plourde, and Waverman found that it was difficult to compare the financial performance of Petro-Canada with other integrated oil companies in the private sector because of different accounting practices and financial benefits.

Still, they made the comparison using methods normally applied to private firms and concluded that, on average, Petro-Canada's profit performance over the 1976-84 period was somewhat below that of four other major oil companies. But when looking at other factors, such as cash flow, its performance was close to that of the other firms.

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News Release

Communiqué

DO NOT RELEASE BEFORE
3:15 P.M. (EST)
MARCH 2, 1988

PR88/03

ADJUSTMENT POLICIES PROPOSED BY ECONOMIC COUNCIL

OTTAWA -- The Economic Council of Canada today proposed new directions for adjustment policies to help manufacturers and workers cope with growing foreign competition.

The Council said in its policy statement that the best approach is to help workers move from declining to growing industries rather than providing capital subsidies to firms.

Council research on special programs for specific industries shows government efforts have often discouraged adjustment in the manufacturing sector.

So the policy statement says the overall principle should be to use general economic policies to encourage such change. Where governments do undertake adjustment programs for particular industries, there should be strict guidelines and time limits.

Managing Adjustment: Policies for Trade-Sensitive Industries, Ottawa, Supply and Services Canada (Cat. No. EC22-150/1988E; \$4.95 in Canada and \$5.95 in other countries).

The policy document -- Managing Adjustment: Policies for Trade-Sensitive Industries -- is based on 18 months of research on adjustment in the manufacturing sector. The full research report will be published in a few months.

The Council noted that the free-trade deal with the United States and the continuing challenge from Japan and the newly industrialized countries have heightened concern in Canada about adjustment policies.

A glance at past performance shows that Canadian manufacturing firms and their workers have adapted rapidly to sweeping economic changes ranging from new technologies to falling tariffs under the multilateral General Agreement on Tariffs and Trade (GATT).

Council research found that more than 8 per cent of manufacturing jobs disappeared annually during the 1970s because of plants closing or declining. In that same period, more than 20 per cent of workers left their employers every year because of layoffs or for their own reasons.

But, at the same time, more jobs were being created as new firms started up and existing ones grew, primarily in expanding industries so that total employment in manufacturing increased.

In general, workers appear to shift from declining industries to jobs in other industries or occupations.

"Sensible public policy in the area of adjustment assistance should therefore facilitate, not hinder, this natural movement of workers who are continually transferring from declining to growing industries," the Council said.

On the whole, the best way to do this is to strengthen general economic policies such as promoting technological change, tax reform, improved labour adjustment measures, and good management of government finances.

But sometimes there are strong pressures to step in and help specific industries struggling with a surge of competition from imports.

An in-depth study of special programs for five vulnerable industries -- textiles and clothing, footwear, automobiles, shipbuilding, and pulp and paper -- revealed these programs have generally had a low payoff, the Council said. Aid to the footwear industry was an exception because it was short-term and had a definite cut-off point.

Generally, measures such as special import quotas and subsidies to firms for modernizing equipment were intended to help industries adapt gradually to foreign competition by shifting from uncompetitive lines of business to new expanding areas.

But, in fact, Council research shows they have led to a "new protectionism" for reasons ranging from lack of a specific timetable for phasing out the aid to an inefficient use of import quotas.

Often, these are long-lasting programs and they actually tend to slow down adjustment to change.

The Council made a number of recommendations to deal with these shortcomings in aid to particular industries. Among the proposals:

-- Import quotas should apply to goods from all foreign countries rather than to those from one or a few sources and they should be phased out gradually with a definite expiry date. Global quotas on footwear are an example of a general import restriction while the voluntary export restraints on the number of Japanese cars are an illustration of a bilateral deal.

-- The federal government should make a careful evaluation of the costs and benefits of any special assistance program and of the possible alternatives before implementing it.

-- There should be a review of the policy after it has been carried out and the information should be available to the public.

-- Such evaluation should be undertaken by an independent tribunal, such as the Canadian Import Tribunal, which would hold hearings before and after quotas are imposed.

-- The federal government should auction off quotas to importers and the information should be made public. This quota system would give voters and their elected representatives a better idea of actual costs than the current method and would also yield revenues the government could use to help workers adjust to change.

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News Release Communiqué

DO NOT RELEASE BEFORE
3:15 P.M. (EST)
MARCH 2, 1988

PR88/04

HELP WORKERS, NOT FIRMS, SAYS COUNCIL

OTTAWA -- Special programs to help the Canadian manufacturing industry adjust to tougher foreign competition should be aimed at workers -- not firms, says the Economic Council of Canada.

The Council said in a policy statement today that "subsidies granted to firms and industries to modernize their capital equipment have not promoted adjustment, despite their aims."

Council research shows that, generally, modernization subsidies did not lead to increased investment by firms. They could not be justified on grounds of efficiency or equity.

But "there is a strong argument for government intervention to help workers adjust."

Investors and firms can diversify their investment portfolios and borrow to finance new investments. They have good sources of information on whether certain national or international projects are risky.

But workers cannot spread their risks as easily. For instance, they cannot borrow to retrain as easily as firms can get financing for new investments.

So there are grounds for government intervention to provide information, retraining, and support to workers who seek jobs elsewhere because of economic change.

Efforts to assist employees in industries hurt by international competition should be part of general economic policies designed to help workers adapt to changing economic conditions, the Council said.

The Council is not in a position to make proposals on all aspects of labour market policy, the statement said. But it suggested a number of steps to take, based on its recent work.

The statement called on federal and provincial governments to implement -- with some adjustments -- the Program for Older Worker Adjustment as soon as possible. The program would provide preretirement benefits to older workers who lose their jobs through layoffs and plant closures.

Workers should also be helped to upgrade their skills because job opportunities are likely to grow in highly skilled occupations.

The Council also sees an expanding role for the Industrial Adjustment Service, a federal program which helps employers and employees develop a cooperative approach in sorting out their adjustment problems.

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News Release Communiqué

DO NOT RELEASE BEFORE
3:15 P.M. (EST)
MARCH 2, 1988

PR88/05

COUNCIL PROBES MULTINATIONAL ISSUE

OTTAWA -- Are foreign subsidiaries more likely to pull up roots than Canadian-owned companies because of such changes as falling trade barriers? Are they less likely to invest in technology-intensive sectors?

The Economic Council of Canada says its research indicates that, generally, foreign affiliates react in much the same way as domestically owned firms to pressures for change.

Where there are differences, the presence of foreign subsidiaries seems to help the Canadian manufacturing sector adjust to these pressures.

These findings are contained in a Council policy statement on adjustment in the manufacturing sector which was released today.

Council researchers looked at the manufacturing sector to see whether multinationals were more likely than domestic firms to shift production from country to country, to pull out because of import competition, or to trim operations. They compared the Canadian experience with results in the United States and Australia.

They found that foreign subsidiaries are less likely than Canadian firms to move their operations to cheaper foreign locations in response to short-term price changes. Multinationals are also no more inclined than domestic firms to close plants when faced with falling demand for their product.

The statement said that U.S. affiliates in Canada have grown more rapidly than similar subsidiaries in other developed nations in industries where there is rapid trade growth. Often, these are firms which are heavily involved in research and development such as chemical products.

In general, the evidence does not show that falling trade barriers have encouraged U.S. firms to leave.

For these reasons, the Council said it sees no reason why there should be a separate adjustment policy for multinational firms.

However, Raymond Koskie, a Council member, questioned the findings on multinationals in comments accompanying the policy statement.

While agreeing with the general thrust of the statement, he also declared that if the economy faces a major shock because of the U.S.-Canada free-trade deal, "the proposals contained in the Council's Statement may not be adequate."

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News Release Communiqué

DO NOT RELEASE BEFORE
10:00 A.M. (EDT)
APRIL 13, 1988

PR88/06

COUNCIL SUPPORTS CANADA-U.S. TRADE DEAL

OTTAWA -- The Canada-U.S. free-trade deal is an "important step forward" in trade relations between the two countries although there is "scope for improvement" in future negotiations, says the Economic Council of Canada.

The accord, said the Council in a Statement today, will yield economic benefits for the country and "sets the stage for more harmonious trade relations between Canada and the United States."

The Statement said it would make sense for Canada to pull out of the deal if this country is hard-hit by protectionist legislation in the United States. The Commons Committee on External Affairs and International Trade has recommended such a step if the U.S. omnibus trade bill becomes law as it stands without exempting Canada.

But aside from that, the Council cautioned against Canada itself repudiating the agreement because U.S. protectionist forces would probably succeed in having new trade actions launched against this country.

Venturing Forth: An Assessment of the Canada-U.S. Trade Agreement, Ottawa, Supply and Services Canada (Cat. No. EC22-151/1988E; $4.95 in Canada and $5.95 in other countries).

The Council policy statement assesses the agreement and objections raised against it. And it weighs the likely benefits in economic growth, real incomes, and employment.

The agreement met most of the Council's own tests for a successful deal. And the Council expects it will create more than twice as many new jobs as it will eliminate.

But there are some weak spots as fewer non-tariff barriers were removed than the Council had hoped. And a major portion of U.S. government procurement remains closed to Canadian buyers.

Reviewing the results of the trade talks, the Council said Canada succeeded in gaining greater access to the U.S. market through elimination of all tariffs by 1998.

As well, there is more-secure access through new trade rules governing such sectors as services, energy, and investment. There are also some general rules to help settle disputes such as a bilateral tribunal to override American and Canadian domestic administrative rulings on countervail and antidumping issues.

In addition, there are special provisions applying to such sensitive areas as agriculture, energy, the auto industry, services, and investment. In general, the Council found these measures acceptable.

However, the Statement said it is unfortunate U.S. government procurement of transport, telecommunications, and some defence goods is still not open to Canadian bidders. It noted that this should be a top priority for Canada in future negotiations with the United States.

In its last Annual Review of the economy, the Council set out several criteria for judging an agreement.

The actual agreement met the criteria that there should be a dispute-settlement mechanism and that Canada's social policies, cultural institutions, and regional policies should be excluded from the deal.

The Council also proposed that there should be a clear definition of subsidies subject to countervailing action and those that are not. The accord requires both countries to abide by the GATT Subsidies Code and commits them to negotiating new, mutually acceptable rules within five to seven years.

The Canada-U.S. deal did not lead to removal of state and provincial barriers, but the Council said this was a somewhat unrealistic goal.

Dealing with concerns and criticisms, the Statement declared it is unlikely that many American subsidiaries will pull out of Canada because they have already invested heavily in plant and people here.

As for chances of a new wave of American takeovers of Canadian firms, the Council said that more investment funds have flowed from Canada to the United States rather than the other way around in the last decade.

The new rules governing federal reviews of American takeovers of Canadian firms should not change the situation much because takeovers affecting about two-thirds of Canadian-controlled assets will still be subject to review. And even under existing rules, Investment Canada has never rejected a proposed takeover.

Indeed, the statement points out that there is an inherent contradiction in the fear of American subsidiaries pulling out, on the one hand, and the fear about additional U.S. takeovers, on the other.

There are also no grounds for believing that the agreement requires or will lead to Canada's social or regional development programs being brought into line with American programs. Differences between Canadian and American programs have actually grown in the last 40 years despite increasing economic links between the two countries.

Turning to adjustment measures, the Council reiterated that such programs should focus on workers rather than firms. And retraining programs should be an important part of such assistance. The Council dealt in more detail with this issue in its recent report Managing Adjustment.

In comments, Council members Diane Bellemare and Kalmen Kaplansky expressed reservations about the impartiality of the dispute-settlement mechanism and concern that the independence of Canadian governments in social, economic, regional, and industrial development policy might be compromised.

They also argued that the agreement "cannot take the place of a national strategy to encourage optimum utilization of our human resources."

In a dissent, Council member Raymond Koskie said the Council has ignored the substantial risks of this free-trade agreement. He stated that assumptions underlying Council projections on the results of free trade are "highly suspect."

While favouring freer trade, Koskie said that he does not think that the actual Canada-U.S. accord is in Canada's best interests.

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News Release

Communiqué

DO NOT RELEASE BEFORE
10:00 A.M. (EDT)
APRIL 13, 1988

PR88/07

COUNCIL EXPECTS MODEST GAINS FROM ACCORD

OTTAWA -- The impact of the Canada-U.S. free-trade deal on the Canadian economy will be "small but positive" over the next 10 years, says the Economic Council of Canada.

The Council said in a Statement, released today, that it expects the accord will lead to an additional increase in employment of 1.8 per cent (about 250,000 jobs) in Canada by 1998 if productivity grows as strongly as it should. The gross national product would be almost 2.5 per cent higher than it would be without the trade agreement.

While impressive, the Council noted that this employment growth is moderate when averaged over 10 years. The economy normally generates 250,000 to 350,000 extra jobs every year.

Under the most probable scenario, all provinces and most industries would gain in employment and output.

The job and economic growth figures are lower than Council projections released last summer. That is because the earlier figures were based on a hypothetical agreement prepared before the actual accord was negotiated and made public.

The actual deal did not go as far as the Council's hypothetical case in removing nontariff barriers nor in opening up U.S. government procurement to Canadian firms.

As it did last year, the Council ran one simulation based on the results of removing the tariff and nontariff barriers in the agreement and a second that also includes higher productivity.

The result of lifting the trade barriers alone would be a boost in output of 0.7 per cent over the first 10 years.

But greater productivity and more-efficient operations, stemming from freer trade, could lead to higher output. With these improvements, the increase in output should rise to 2.5 per cent -- the most likely outcome.

However, the economy and employment could expand even more, the Council said, because the new agreement would make trade easier and more secure. This could stimulate more investment.

If the trade pact is not approved, Canada might lose rather than gain jobs and investment as the United States might react by imposing new protectionist measures against Canadian exports.

Looking at the impact of the Canada-U.S. accord on individual industries, the Council found that productivity improvements are important if Canada is to get the most out of the deal.

Without such steps as modernizing plant and upgrading work skills, 17 of the 36 industries studied will decline in employment and output. Almost all are in manufacturing with electrical products probably the hardest hit.

But if vulnerable industries reorganize and modernize, they may benefit in the long term. Council simulations show that with productivity improvements, 29 of 36 industries will gain from free trade. About 90 per cent of the additional jobs are in the service sector, primary industries, and construction.

In 20 manufacturing industries, 13 industries will generate about 30,000 new jobs overall while seven will drop about 10,000 over the 10-year period. Among those expected to increase employment significantly are the wood, primary metals, and printing and publishing industries. Other industries such as electrical products, rubber and plastics, and textiles will reduce employment.

All provinces will benefit from free trade, but the eastern and western provinces will gain somewhat more than the central provinces. This reflects the importance of such industries as agriculture, fishing, energy, and construction in these provinces.

Quebec and Ontario will grow less, relatively, because they depend more on manufacturing which will expand more slowly.

The Council noted that Canadians should not focus on the precise numbers of the projections but on the general thrust of the results. The projections "tell a consistent story" that approving the free-trade agreement will promote economic growth and employment in Canada.

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News Release Communiqué

FOR RELEASE ON
JUNE 9, 1988

PR88/08

TAX CREDIT PROGRAM USEFUL IN CREATING JOBS

OTTAWA -- The federal employment tax credit program of the late 1970s is a "promising policy approach" for dealing with unemployment particularly during a recession, says an in-depth study of the program.

Surendra Gera, a senior researcher with the Economic Council of Canada, says in a report released today that his analysis of the tax credit program revealed some weaknesses. But, overall, such subsidy methods "have an important role to play during periods of high unemployment."

The program, which operated between 1978 and 1981, proved to be socially beneficial and reasonably cost-effective compared to other methods of boosting employment.

On the other hand, it did not create many additional jobs. And it did not help workers become more employable in the future.

S. Gera, Creating Jobs in the Private Sector: Evidence from the Canadian Employment Tax Credit Program, Ottawa, Supply and Services Canada (Cat. No. EC22-148/1988E; $8.95 in Canada and $10.75 in other countries).

The program succeeded in generating 113,000 jobs over the three-year period. It got off to a slow start -- only 17,000 jobs in the first year -- but picked up speed after some adjustments were made.

Under the program, the federal government promised to provide a tax credit of $1.50, $1.75 or $2 an hour to employers who created jobs that would not have existed without the program. The level of the subsidy depended on the size of the unemployment problem in the region -- the highest subsidy went to the Atlantic provinces and the Gaspé region in Quebec.

The bulk of the jobs were created in the most populous provinces of Ontario and Quebec followed by British Columbia, Alberta, and New Brunswick. A typical participant was young, male, single, and unemployed. Women made up only one-third of the workers benefitting from the subsidy although they accounted for 45 per cent of the unemployed.

In his study, Gera set out to determine whether the program was economically and socially efficient, whether it led to a net increase in employment, and whether it improved the long-term employment prospects of participants.

Following a series of calculations, the author concluded that the program was socially beneficial and efficient because the "social opportunity cost" of creating a job was considerably less than the weekly wage under the program. The social opportunity cost is the economic value of what these workers would have been doing if the program hadn't existed.

The greatest social benefits were in high-unemployment areas. The program acted in the right direction by providing a relatively greater rate of tax credit to employers in high-unemployment areas, the author says.

As for the program's impact on job totals, Gera says that only 20 per cent of the jobs reportedly created by the tax credit program were additions to overall employment. That's because some of the new jobs simply replaced existing positions. And some participants would have been hired without the subsidy.

He also says that the average annual cost of each job under the program was about $9,400 which was less than the cost of other public-service employment programs or general measures such as income tax cuts.

Comparing participants in the tax credit program with a similar group of people in the labour force, Gera concluded that the program did not increase chances of employment later on. This is not surprising, he says, because participants had problems securing jobs in the past.

Some of the advantages of such subsidies are that they often act quickly to increase employment; they are flexible; they can be used to increase employment or prevent layoffs in a recession; they can be targeted to aid people or regions facing high unemployment; they can boost employment in the short run without increasing inflation; and they are more cost-effective than other job creation methods.

Gera also says that the employment tax credit is best used for short-term problems such as a recession. For a longer-term problem, he notes that the Council has recommended in the past a direct cash wage subsidy to private employers.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release Communiqué

EC
-P66

FOR RELEASE ON
JULY 14, 1988

PR88/09

SOME QUOTA, SUBSIDY PROGRAMS INEFFICIENT: REPORT

OTTAWA -- A research report, released today, pinpoints waste and inefficiency in a range of government import quota and subsidy programs designed to shield vulnerable Canadian industries from tough foreign competition.

The report, prepared for the Economic Council of Canada, notes that the estimated cost to consumers of maintaining a job in the clothing industry by means of import restraints is between \$3 and \$4 for every \$1 of worker's income. Costs of quotas have been similarly high in the auto and footwear industries.

Some of the federal subsidy programs for the shipbuilding and pulp and paper industries have also been costly, have delayed adjustment to foreign competition, and have failed to meet their objectives. In general, these objectives were to encourage adjustment to foreign competition or to revitalize flagging industries.

Adjustment Policies for Trade-Sensitive Industries, Ottawa, Supply and Services Canada (Cat. No. EC22-152/1988E; \$9.95 in Canada and \$11.95 in other countries).

There were some successes among programs examined by Council researchers. For example, the report speaks approvingly of the way the import quota program worked in the footwear industry because the restraints were temporary and the industry reorganized.

To promote better decision making by governments, the report suggests regular publication of a "Protection Balance Sheet" which would spell out the costs and benefits of quotas and industrial subsidy programs. This would be published by a federal agency such as the proposed Canadian International Trade Tribunal.

Overall, the document says Council research shows that Canadian manufacturing firms and their employees have adapted well to increased trade competition and other forces of change. And it reveals that Canadian subsidiaries of foreign firms react in much the same way as domestic firms to trade pressures.

The report provides the detailed research and analysis underlying a Council policy statement on adjustment to foreign competition which was released in March.

Of federal assistance to the textile and clothing industries, the new report states that the goals of Canada's bilateral quota system was to encourage these industries to adapt gradually to competition from less developed countries, moving out of lines which were no longer viable.

The textile industry has reorganized better than the clothing industry for a number of reasons. But the government continues to aid the textile and clothing sector even though the assistance was supposed to be temporary. The report goes on to say that a gradual reduction of the restrictions on textile and clothing

imports should not lead to major problems, provided appropriate labour adjustment policies are introduced.

Voluntary quotas on imports of Japanese autos were designed to give North American car makers in Canada a breathing space to revitalize.

Various studies have estimated the cost per job of the voluntary restraints at $179,000 to $226,000 in 1985 when the average wage was around $30,000. The report concludes that there was no clear rationale for the program, no thorough evaluation, and no precise time limit.

As for subsidy programs, the report points out that there are high costs to transferring funds to firms -- about 80 cents out of every subsidy dollar. That includes the cost of administering subsidy programs and the cost of diverting resources from other uses.

The document says the Pulp and Paper Modernization Program, set up in 1979 to help the industry become more competitive internationally, was not successful in meeting its goal of modernizing equipment in the pulp and paper industry. A dollar of subsidy did not produce a dollar's worth of new investment. This may have reflected the lack of a valid program rationale.

Even though the program ended in 1984, the report notes that "government assistance for modernization continues to flow to the pulp and paper industry through the Industrial and Regional Development Program."

The report finds similar failings with the Shipbuilding Industry Assistance Program which was launched in 1975 to help a declining industry build ships for domestic and foreign buyers.

One of the most important aims of the program was to make the shipbuilding industry more internationally competitive. But it failed this test because the industry now relies largely on a single client -- the federal government.

Despite killing the program in 1985, the government has replaced it with a series of measures "designed to insulate the shipbuilding industry from competition for an indefinite future."

Looking at programs for helping workers in threatened industries find new jobs, the report says the Industrial Labour Adjustment Program and the Canadian Industrial Renewal Program (CIRP) were basically sound. But they had little success because of the recession in the early 1980s and the fact that little information reached those who might have benefited from CIRP.

The report also reiterates recommendations from the Council's earlier policy statement urging governments to use general economic policies to aid adjustment and to channel assistance to workers rather than firms. If the government decides to help particular industries, it should set time limits and strict guidelines.

Among other proposals, the Council has urged that the government auction off quotas so consumers can see how much they cost. An auction system would also mean that the financial benefits from these import barriers would go to the government rather than to foreign quota holders or to Canadian distributors and retailers who do not have to bear the costs of adjusting to international competition.

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News Release

Communiqué

PR88/10

DO NOT RELEASE BEFORE
10:00 A.M. (CST)
NOVEMBER 24, 1988

COUNCIL PROPOSES PRAIRIE FARM POLICIES

REGINA -- The Economic Council of Canada has proposed a package of policies to help Prairie farmers manage their risks in a world of volatile grain prices and tough international competition.

The Council recommended in a report released today that governments should make changes ranging from broadening the scope of existing farm income support programs to giving more help to those leaving farming.

As well, it suggests steps to encourage soil conservation and to develop a more self-reliant farm sector if current multilateral trade talks succeed in lowering agricultural subsidies.

In general, the Council said, the "real challenge for federal and provincial agricultural policies is to build self-reliance so that efficient farmers can prosper."

The report was released here days before the Mid-Term Review of the multilateral negotiations under the General Agreement on Tariffs and Trade takes place in Montréal on December 5-7.

Handling the Risks: A Report on the Prairie Grain Economy, Ottawa, Supply and Services Canada (Cat. No. EC22-154/1988E; $9.95 in Canada and $11.95 in other countries).

Agricultural subsidies are expected to be a key issue in the Montréal talks.

The Council prepared the report at the request of the Prime Minister of Canada following a suggestion from Premier Grant Devine of Saskatchewan. The 19-month project was assisted financially by the federal and Saskatchewan governments, the Alberta governments, and a number of private sector groups.

Prairie grain and oilseed production is internationally competitive and "will continue to make an important contribution to the Canadian economy," the report said.

But current federal spending on Prairie agriculture is "not sustainable." When transportation subsidies are included, it amounted to more than $4 billion in 1987 or $30,000 per farmer.

Ottawa boosted assistance sharply in the last couple of years because world grain prices dropped. The extra federal aid was designed to counteract heavy subsidies by the United States and the European Community to their farmers.

But after examining a variety of federal and provincial programs, the Council concluded that income support efforts "ignore the build-up of debt while inappropriate credit policies appear to have aggravated it" by contributing to the run-up in land prices.

As well, these programs "encourage dependency on government and discourage innovation." Farmers are likely to base some of their decisions on what help they can expect from government rather than on market demand because government aid is not the same for all agricultural activities.

There are a variety of other policy shortcomings including insufficient help for farmers who want to leave agriculture and inconsistency between federal and provincial policies.

To deal with these problems, the Council recommended policy changes to encourage efficiency and competitiveness while not increasing government spending. Among the proposals:

-- The Western Grain Stabilization Act should be amended to cover all crops and to vary farmers' contributions to the stabilization fund to counteract price swings.

-- Crop insurance should be extended to cover pasture and forage. Ottawa should also consider developing a similar program for livestock.

-- Income stabilization and insurance programs should be compulsory to reduce the need for ad hoc bailouts.

-- Federal and provincial lending should be based on the capacity of farmers to repay loans rather than on their farm assets. Farm Credit Corporation loans should favour projects which improve farm productivity rather than land purchases.

-- To help farmers who want to spread their financial risk or to leave agriculture, changes should be made to the provisions governing the taxation of capital gains and there should be increased training assistance for farmers seeking new occupations.

-- Farm management training should also be improved to help farmers manage their operations in a more risky world.

-- Federal and provincial governments should set up a Conservation Reserve Program so that farmers could be compensated for returning lower-yielding soils to forage or pasture.

The Council report also suggests seeking new ways to rationalize support for the farm sector; looking at proposals to sever the link between farm aid and particular farm commodities; and phasing out transportation subsidies if the GATT talks succeed in significantly lowering foreign agricultural subsidies.

In a comment, Council member Ken Stickland said that while he supports the recommendations, the report does not pay enough attention to livestock markets.

As well, he said he was disappointed the Council did not deal with Canadian Wheat Board policies on oats and barley marketing and it did not link the need to reduce federal spending on grain support programs with subsidies to dairy farmers in central Canada.

The Council report was based on the findings of research carried out by leading agricultural economists at the University of Saskatchewan in Saskatoon, the University of California-Davis, and Council headquarters in Ottawa.

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News Release Communiqué

PR88/11

DO NOT RELEASE BEFORE
10:00 A.M. (CST)
NOVEMBER 24, 1988

POLICY CHANGES PROPOSED IF GATT BARRIERS LOWERED

REGINA -- Canada should rethink Prairie farm policies if multilateral trade negotiations lead to freer trade in agriculture, says the Economic Council of Canada.

The Council said in a report released today that this country should review Prairie farm programs and transportation subsidies if barriers to Canadian grain exports drop significantly in the current round of talks under the General Agreement on Tariffs and Trade.

Changes should be linked to such steps as reduced farm subsidies by the United States and the European Community and easier access to Japanese markets, the Council report said.

As well, Canada should extend its Conservation Reserve Program to include a certain proportion of its crop land if other major grain exporting countries take similar steps to reduce farm acreage in production.

The Council report comes days before negotiators from many countries are due to meet in Montréal for the latest round of

talks under the General Agreement on Tariffs and Trade. Agricultural subsidies are a major item on the agenda.

Prairie farmers and Canadian taxpayers both stand to gain from freer trade in agriculture, the Council said. But the outlook for the GATT negotiations is unpredictable at the moment with both the European Community and Japan reluctant to put all barriers and farm subsidies affecting trade on the table.

Heavy subsidies by the United States and the European Community to their farm sector have led to fierce price competition for Canadian grain on world markets.

Under the Special Canadian Grains Program, the federal government funnelled close to a billion dollars a year to Prairie farmers in 1986 and 1987 to offset these foreign subsidies. Yet the Council concluded that, on the whole, Canadian Prairie farm support efforts distort trade less than major agricultural programs in the United States and the European Community.

But one Canadian measure that is often accused of affecting trade is the Western Grain Transportation Act. The Council finds little evidence that the WGTA subsidies distort trade but they do increase grain farmers' income at the expense of livestock producers.

If agricultural trade barriers are lowered abroad, the Council recommends phasing out the freight rate subsidy and giving farmers some compensation during the transition.

The Council report also suggested that if the GATT negotiations succeed Canada should consider a more sweeping change to Prairie farm support programs to help solve domestic and international trade problems.

A new "decoupled" farm assistance system would provide support to Prairie farmers directly rather than tying assistance to their production of specific crops. This approach, already being examined in some countries, would promote efficiency and cut down overproduction.

The federal government should study the feasibility of introducing such a program in Canada, opening it up to as many farmers as possible, the Council said. Provincial governments and farm groups should be consulted.

The Council report offers a set of examples of possible farm income support programs including farm income insurance, an income stabilization fund, a farm adjustment option, and family-income disaster assistance.

They are designed to allow the farmer to stabilize his own income over time, to help the farm sector react better to market demand, to ease adjustment, and to avoid hardship. They would complement each other and would replace current programs tied to specific farm commodities.

Farm income insurance, for example, would protect farmers against major farm-income losses, whether caused by low market prices or poor weather. The farmer's insurance premium would be based on his farm cash receipts and would be matched by government.

The income stabilization fund would encourage farmers to invest a major part of their income gains -- matched by government contributions -- in a self-administered fund to protect against future income losses. With the farm adjustment option, a farmer

could choose to treat assets accumulated in the fund as a tax-free capital gain when he leaves or retires from farming.

Family income disaster assistance would be given when provincial or regional farm incomes drop to critical levels. It would help farmers cover up to half their essential living expenses.

These changes could be introduced in a way that would respect the Council's objective of gradually reducing current government spending on Prairie agriculture.

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News Release Communiqué

PR88/12

DO NOT RELEASE BEFORE
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NOVEMBER 24, 1988

PRAIRIE FARM TOTALS EXPECTED TO DECLINE

REGINA -- The number of Prairie farms is likely to drop by 15,000 and possibly by as much as 35,000 in the years 1985 to 2000.

Small- and medium-sized farms are expected to decline in number while corporate farms will increase. Total farm employment is expected to decrease 12 per cent in that time span.

Yet farm production should rise 40 per cent and the average farm size increase to over 1,100 acres from 950. Family-operated farms will continue to produce more than three-quarters of that output.

This is the picture drawn by the Economic Council of Canada in a policy report released today. It is based on past trends continuing.

While most Prairie farms are financially stable, the Council report notes that in 1987 one of every four was in financial difficulty and one in 10 was "non-viable" because expenses exceeded income.

In fact, young farmers under 35 are even more vulnerable. Almost one of every two is in financial trouble while one in every

six or seven has no cash income to cover family expenses after payments on farm loans.

Most Prairie farmers rely on non-farm sources of income. In 1985, about three-quarters of the income of Prairie farm families came from off-farm jobs. Other major contributors were government support payments, investment income, and pensions.

In 1987, the combination of massive new federal subsidies and existing direct support programs transferred about $20,000 to the average farmer.

Without these heavy subsidies, many Prairie farmers could not have continued operating.

In general, Prairie farmers have not become rich from farming. The labour income of the average Prairie farmer, after deducting other farm costs, was less than the average industrial wage in most of the years between 1961 and 1985.

Drought, low world grain prices, and unrealistic expectations of future prices are among the main reasons for the current squeeze on Prairie farm incomes. Many farmers who borrowed heavily with hopes of steady price increases now find themselves burdened with debts in spite of government transfers.

While steps can be taken to help Prairie agriculture adjust to tougher world competition and survive natural disasters, there are limits to growth in the grain sector. The Economic Council report points out that the long-term trend in real grain prices -- the price of grain minus inflation -- is downward.

There are some possibilities for diversifying farm production into livestock and new crops. But farmers have to be good

managers to take advantage of them. In recent years a larger proportion of mixed farms -- producing both grain and livestock -- was in difficulty than of grain farms.

The Council points to management as a scarce resource in Prairie agriculture. Overall, it found that "farmers in financial difficulties ran their farm operations less efficiently and employed their farm resources less effectively than those in financially viable and stable situations."

Although world grain prices have increased significantly in recent months, the report indicates this will not solve the underlying problems of Prairie agriculture.

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News Release

Communiqué

PR88/13

DO NOT RELEASE BEFORE
3:15 p.m. (EST)
DECEMBER 22, 1988

ECONOMIC ACTION PLAN PROPOSED

OTTAWA -- The Economic Council of Canada today set out policy priorities to prepare Canadians for a more competitive world in the 1990s and beyond.

The Council said in its Annual Review of the economy that its three-pronged strategy should include reducing the federal deficit, improving the competitiveness of Canadian industry in world markets, and building a stronger work force.

The Annual Review pinpointed the large federal deficit, disappointing productivity performance, and inadequate efforts to train and develop the labour force as weaknesses which must be overcome.

Without action to deal with these problems, Canadians "will find themselves falling behind in the world marketplace of tomorrow, despite Canada's rich endowment of natural resources."

The Annual Review, which marks the Council's 25th anniversary, glances back at economic performance over the last quarter century

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Twenty-Fifth Annual Review, Back to Basics, Ottawa, Supply and Services Canada (Cat. No. EC21-1/1988E; $8.95 in Canada and $10.75 in other countries).

and looks forward to the key economic, environmental, political, and labour force issues in the next 25 years. These issues are linked and will require policy makers to take a more wide-ranging approach to problem solving.

While the economy has performed well in recent years, the Council report said it is time for a change in the mix of economic policy. More stress should be placed on deficit reduction in order to reduce the burden on monetary policy. And it also means tackling fundamental problems of unemployment and competitiveness.

The Annual Review cautioned against stimulating the economy at this time because it would likely stoke inflationary fires in sectors where business is booming and there are skill shortages without bringing benefits to the unemployed in regions such as the Atlantic provinces and British Columbia.

Resorting to higher interest rates to dampen inflation would probably lead to a stronger Canadian dollar, reduced investment, and lower exports.

So federal and provincial governments must set out to reduce their deficits significantly because large deficits reduce the room for manoeuvre in economic policy.

On improving competitiveness, the Council said:

-- Governments should concentrate on making goods and services more competitive internationally through policies that improve access to export markets and that promote the use of new technologies.

-- Statistics Canada should consider carrying out a regular survey to measure the rate of progress in technological diffusion.

-- Industry associations should develop productivity measures which would help companies compare their performance with competitors in Canada and abroad.

Tied to improving competitiveness is a highly qualified and well-motivated work force. Among other things, this means:

-- There should be greater coordination of the $30 billion spent on education and training by federal and provincial governments.

-- More colleges and universities should develop courses that meet the needs of industry and workers in their communities.

-- Industry should improve on-the-job training and work organization to develop a more highly skilled and motivated labour force.

-- Workplace-based training has a higher payoff than job-creation programs.

In addition, the Council repeated its support for the Program for Older Worker Adjustment which is now being implemented.

As for the longer term, Canadian policy makers will face increasingly tough decisions as major world developments in the economy, the environment, technology, politics, and population growth become entangled. There are growing links between these elements -- for example, environmental damage such as deforestation results, in part, from population pressures and from economic growth. In turn, deforestation can have an impact on population growth and the economy.

In addition, Canadian leaders must take account of such trends as the spread of economic power from a single nation -- the United States -- to a growing number, including those in Europe and the Pacific Rim. This reflects the closing of the economic gap amongst industrial nations, and between the industrialized countries and developing states such as South Korea. At the same time, the gap between the richest countries and the very poor states is growing.

In separate comments, Council member Raymond Koskie said that the Council should have made specific recommendations on how education and skills-training programs should be designed and on spending for these programs.

Council member William Mackness said the Council's recommendation on reducing the deficit is unhelpful because it "avoids the critical issue of controlling runaway spending on transfer payments and universal social programs."

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News Release Communiqué

PR88/14

DO NOT RELEASE BEFORE
3:15 p.m. (EST)
DECEMBER 22, 1988

COUNCIL URGES MORE PRECISE ATTACK ON UNEMPLOYMENT

OTTAWA -- Unemployment must be attacked with well-targeted programs rather than broad economic policies, says the Economic Council of Canada.

The Council said in its Annual Review of the economy today there is evidence that the economy has reached a point where broad policies aimed at stimulating growth could fuel inflation in already booming areas of the country without lowering jobless rates in other regions.

What is required, the report said, is a better effort to match unemployed workers with the right jobs. This means focussing on a range of specific programs including manpower training.

Rapid economic change stemming from oil price shocks and the recession of the early 1980s forced manufacturing industries to retrench, shedding many workers.

A lot of these people -- particularly older workers -- were unable to move easily into the growing service industries ranging from restaurants to high-tech companies. This is reflected in the

fact that the number of jobless out of work for a year or more grew sharply over the last decade.

These factors have contributed to a stubborn core of unemployment, called "structural unemployment" by many economists. This refers to unemployment which cannot be accounted for by the normal rise and fall of the business cycle.

Along with this analysis of changing employment trends, the Annual Review takes advantage of the Council's 25th anniversary to look at other key issues for the 1990s and beyond. And it calls on governments to focus on reducing the deficit, improving the competitiveness of Canadian industry in world markets, and strengthening the workforce.

Council analysis, the Annual Review said, shows that there has been a steady upward trend in both unemployment and job-vacancy rates in the last three decades.

In probing the reasons for these conflicting trends, the Council concluded that a major factor was growing structural unemployment arising from the stepped-up pace of change in recent years.

At the same time, there was more-rapid growth in the service industries than in the goods industries, creating a demand for skills which many unemployed workers did not have.

Other findings:

-- Structural unemployment in provinces depending on commodities such as lumber, grain, oil, and fish are higher than that of Ontario which has managed to return to pre-1981 levels because of its broader industrial base.

-- Employment has shifted more rapidly toward service industries in British Columbia and the Prairie provinces than in other regions.

-- The rate of long-term unemployment has fallen more slowly in Quebec than in Ontario and British Columbia in the last year or so.

Looking specifically at services, the Council noted that retail trade and other low-wage service industries have traditionally depended heavily on hiring women and young people. But there will be a much smaller pool of women and young people to draw on in coming years.

Already, these industries are facing shortages in booming southern Ontario and that is likely to spread across the country. The Council suggests firms in these industries may have to improve the quality of low-skill jobs by offering higher pay, better benefits, and more chances for promotion. Or they may choose to hire more older workers.

As for high-wage industries such as communications and information, the demand is for skilled workers in a highly competitive, rapidly changing world. In this case, education, training, and adaptability are important.

For all workers, the Council said, "flexibility and adaptability are becoming the basic currency of the work force of the late 20th century."

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News Release Communiqué

PR88/15

DO NOT RELEASE BEFORE
3:15 p.m. (EST)
DECEMBER 22, 1988

MODERATE GROWTH EXPECTED

OTTAWA -- The Economic Council of Canada expects moderate economic growth, a slight decline in the unemployment rate, and little change in the inflation rate in the next four years.

Slower growth in the United States and a fall-off in domestic investment -- particularly in housing -- will likely dampen growth in 1989 and 1990 but the economy will gather strength again in the following two years, the Council said in its Annual Review of the economy today.

Overall, the economy should achieve or even exceed some of the new economic objectives set out by the Council in this year's Annual Review. But the Council's base-case projections indicate that Canada will fall short on four vital targets -- productivity, the unemployment rate, inflation, and the federal deficit.

The Council said it designed its new set of economic targets for the next four years to "stretch the capabilities of the economy."

Marking the Council's 25th anniversary, the Annual Review looks at key economic issues for the next few years and urges the

government to focus on reducing the deficit, improving competitiveness in world markets, and strengthening the work force through better job training and education and other measures.

The Council's projections as to what is likely to happen in the economy are based on assumptions about economic performance in the United States, the impact of the U.S.-Canada free-trade agreement, federal tax reform, provincial budgets, and likely interest rate policy. Using an econometric model, Council researchers developed several possible scenarios ranging from high to low economic growth.

In the case it considers most probable, the Council projected economic growth averaging about 3 per cent in the 1988-92 period -- somewhat lower in 1989 and 1990 and somewhat higher afterwards.

Slower growth will mean little change in the unemployment rate in the next two years and then a small decline to just over 7 per cent by 1992. The federal deficit as a proportion of Gross Domestic Product will decline slightly but it remains disappointingly high despite the Council's assumption of rigorous spending control. Productivity growth will be slower than in the past five years.

The inflation outlook is less predictable. There are signs of trouble -- soaring housing prices in Ontario and rising commodity prices. But the Council expects consumer price increases will be contained in the 4- to 5-per-cent range.

That is partly because monetary authorities are expected to adjust interest rates to prevent prices from rising too sharply and because competitive pressures will force companies and unions to concentrate on cost control and improving quality.

The new economic objectives set out by the Council update targets announced in 1983. The Council noted that economic conditions have changed since 1983 -- for instance, plants were operating at less than full capacity five years ago but that gap has since closed.

This country reached the 1983 targets for inflation, unemployment, and economic growth but fell short on productivity, the deficit, and the objective of regionally balanced growth.

The new targets, the Annual Review said, are ambitious but feasible, pushing Canadians to go beyond the expected in some areas. In some cases, such as productivity and social programs, they are the same as the 1983 objectives and in some, such as unemployment, they are tougher.

The Council is calling for a reduction in the target range for the unemployment rate to between 5 and 7 per cent by 1992, while setting a range between 4 and 6 per cent for the longer term. The Council is also proposing a deficit goal that is somewhat lower than Canada's probable performance.

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News Release Communiqué

PR89/01

FOR RELEASE ON
JANUARY 31, 1989

STUDY DISCOUNTS FEARS ABOUT MULTINATIONALS

OTTAWA -- A just-released study says economic research throws cold water on fears that American multinationals will sharply reduce activity in this country because of freer trade.

In fact, the study concludes that Canadian affiliates of multinationals "have tended to do better the greater are the opportunities for international trade." That is based on the 1966-84 period when international trade barriers declined significantly.

The study, released today, was prepared for the Economic Council of Canada by Donald G. McFetridge, a Carleton University professor who co-ordinated research on industrial structure for the Macdonald Royal Commission on the economy.

McFetridge's research contributed to an Economic Council policy statement last March on adjustment in the manufacturing sector to import competition.

The economist set out to discover how U.S. multinationals adjusted to economic change in the 1966-84 period and the impact

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Donald G. McFetridge, Trade Liberalization and the Multinationals, Ottawa, Supply and Services Canada (Cat. No. EC22-156/1989E; $5.95 in Canada and $7.15 in other countries).

this had on Canada. He focused on relocation of plants to other countries and on reorganization of production.

In general, the study found that Canadian affiliates of multinationals reacted in much the same way as domestic firms to economic developments.

As well, the Canadian affiliates which seemed to do best in maintaining or increasing their employment share in multinational companies were also most active in exporting goods. For that reason, McFetridge suggested, freer trade should aid these Canadian affiliates.

Among other points in the McFetridge study:

-- There seems to be little difference between multinational firms and domestic companies in closing Canadian plants because of economic change.

-- Over the 1975-79 period, production became more specialized in this country.

-- The employment share accounted for by Canadian affiliates dropped in comparison with U.S. parents but increased compared to affiliates in other developed countries. This can be partly explained by a faster recovery in the United States from the recession in the early 1980s.

-- The largest decline in employment share in relation to U.S. parent companies is not in manufacturing but in services, transportation and communications, and finance and insurance.

-- In the manufacturing sector, Canadian affiliates tend to do better than their U.S. parents in employment in industries where

trade is growing quickly and where there is a high rate of research and development.

-- Canadian affiliates are reorganizing production so that they specialize more. Most specialization in Canada under the Canada-U.S. free-trade deal is expected to be through reducing the number of production stages in plants rather than cutting product lines.

-- Trade between Canadian affiliates and their parents is becoming more balanced overall -- that is, Canadian affiliates are exporting more than they did in earlier years. This is not the case in some sectors such as the food industry.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release

Communiqué

PR89/02

FOR RELEASE ON
FEBRUARY 16, 1989

GRAIN PRICES EXPECTED TO RISE

OTTAWA -- A new grain market forecast offers some hope to Canadian farmers -- world wheat, coarse grain, and oilseed prices are expected to rise in the early 1990s.

The study, carried out by four University of Saskatchewan researchers for the Economic Council of Canada, states that the demand for oilseeds and oilseed products will probably be stronger than for grains in the next few years.

For that reason, the oilseed canola is likely to become a more important crop in Canada. However, palm oil, produced outside Canada, is a potential threat to expanded canola markets in the 1990s.

The prospects for wheat, the mainstay of the Western grain economy, are for an upswing in prices in the early 1990s because, by then, demand will be greater than supply. Production of coarse grains, such as barley, will stagnate until 1992 when prices will pick up.

W. H. Furtan, T. Y. Bayri, R. Gray, and G. G. Storey, Grain Market Outlook, Ottawa, Supply and Services Canada (Cat. No. EC22-153/1989E; $9.95 in Canada and US$11.95 in other countries).

The authors note that a major factor in world wheat supply and demand is government policy, particularly in the United States and the European Community which have heavy subsidy programs.

The study, released today, was written by professors H. Furtan, T. Y. Bayri, and G. G. Storey of the Department of Agricultural Economics at the University of Saskatchewan in Saskatoon, and by R. Gray, an agricultural economist at the University of California, Berkeley, California. The research contributed to an Economic Council of Canada policy statement, Handling the Risks: A Report on the Prairie Grain Economy, which was made public in November.

The study projects to 1995 the outlook for grain production, consumption and trade in wheat, coarse grains, and oilseeds for Canada, the United States, the European Community, the Soviet Union, China, India, and other key producers.

It includes a most likely case along with high and low scenarios, although the authors note that significant changes in government policy, technology, and weather conditions could lead to quite different results than their base case.

On wheat, the report says:

-- Lower-quality feed wheats will account for a growing share of the world wheat export market in coming years. Demand for high-quality bread wheats, Canada's primary crop, will not be as strong as for feed wheats.

-- Farm policy in the United States, the biggest wheat exporter, has a major impact on the world wheat price. Both the United States and the European Community are fighting a farm subsidy war which has helped keep the world price low in recent years.

-- In Canada, the authors expect wheat production to decline slightly in the 1988-95 period with consumption rising a bit and exports dropping fractionally.

-- There will be little change in production and consumption in the United States in the same period and exports will probably tail off slightly between 1990 and 1995.

-- The Common Agriculture Policy of the European Community, a tool to subsidize farmers, is unlikely to change much. For that reason, production and exports are expected to continue climbing.

-- World consumption should catch up to world supply by 1990, driving up demand and prices.

Canadian production of coarse grains, such as corn and barley, will probably drop in the next couple of years, picking up again in 1992. There will be a drop in exports in the short term but they also will rise by 1995.

The world price of coarse grains will strengthen in the early 1990s as grain stocks fall.

World production and demand for oilseeds and oilseed products such as soya beans, canola, flaxseed, and various oils and meals is projected to grow steadily. In Canada, exports of oilseeds and fats and oils are expected to rise quite strongly in the years to 1995.

One of Canada's main customers for canola seed is Japan. But that country protects its oilseed crushing industry so that the Canadian crushing industry is at a disadvantage in attempting to

make inroads into the Japanese market with canola oil. As a result, some crushing plants are in financial trouble.

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release Communiqué

PR89/03

FOR RELEASE ON
FEBRUARY 28, 1989

STUDY WEIGHS IMPACT OF TAX REFORM

OTTAWA -- Federal tax reforms may make it less attractive for Canadians to save and to put money into new investments, says a new research study released today.

And failure to index the tax system means that a resurgence of inflation could undo some of the gains from tax reform, says the study, prepared for the Economic Council of Canada.

On the other hand, the study concludes that the tax reform measures in the 1986 federal budget and in the 1987 taxation White Paper will lead to a more neutral tax system in some respects. That is, there will be less incentive for Canadians to divert money from one investment project to another simply for tax reasons.

But the authors say that "the tax system will still constitute a serious potential source of distortions in investments and saving decisions, even after tax reform."

The report is a revised version of a paper first presented at a Harvard University conference in 1987. It was written by Michael J. Daly, Thomas Schweitzer, and Pierre Mercier, members of

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Michael J. Daly, Pierre Mercier, and Thomas Schweitzer, The Taxation of Income from Capital in Canada, Ottawa, Supply and Services Canada (Cat. No. EC22-155/1989E; $5.95 in Canada and US$7.15 in other countries).

a project group which provided the research behind a Council policy statement on taxation of income from savings and investment in 1987.

The study sets out to compute tax rates on new investment in a range of different cases and to evaluate the impact of tax reform on investment and savings in Canada.

The authors note that marginal effective tax rates -- the actual tax rates on income from new investments -- have been rising since 1985 as a result of tax reform. That tends to discourage saving and investment in the economy as a whole, which are important factors in revamping industry in the changing world of free trade.

As well, inflation could raise the marginal rate in some cases and lower it in others, creating a greater variation in rates than before. This would work against recent tax reform measures aimed at making the system more neutral.

"Indexation ought to be viewed as a worthwhile insurance policy against the damaging ramifications of a renewed outbreak of inflation," the authors say.

In general, there seems to be some inconsistency in the principles behind the tax reform changes, the report says.

For instance, measures to broaden the tax base fit well with a system of annual income taxation while the lifetime capital gains exemption and changes to registered retirement savings plans are steps toward taxation of income earned over a lifetime.

"The only prospect for a fair and efficient tax system is to adopt one that is based on a small set of clear and consistent

principles and that departs from them only in a limited number of clearly defined ways."

While the 1986 budget measures and the 1987 reform proposals move toward a more neutral tax system, there are still some important shortcomings, the report suggests.

For example, firms will still be able to write off certain assets for tax purposes long before the end of their economic lives. And federal statutory tax rates will still vary according to the size and nature of a company's production activity.

They suggest governments should take further steps to make the tax system more neutral. And they outline two ideal systems that policymakers could aim at in designing improvements.

One would involve such measures as capital cost allowances that reflect true economic depreciation, indexing inventory costs, and complete indexation of personal exemptions, deductions, and tax brackets.

The other would be a cash-flow system for corporate and personal income taxes. The corporate tax base would be simply the difference between a firm's sales receipts and the money it spends acquiring goods and services. The personal tax base would be the difference between an individual's receipts and saving.

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release

Communiqué

PR89/04

FOR RELEASE ON
MARCH 21, 1989

FREE TRADE IN GRAINS FACES OBSTACLES

OTTAWA -- Consumers and taxpayers in Canada and many other countries would gain from freer world trade in grains, say three University of California researchers.

But, many farmers will not do as well, say the researchers in a study released today. And that is a major stumbling block in the path of an international free-trade agreement on agriculture.

So the study also looks at alternative strategies for Canadian policy makers if current efforts at ending grain trade subsidies and removing protectionist barriers should fail. Agricultural issues are an important item in the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT).

Above all, Canadian policy should be flexible because uncertainty is a hallmark of the international grain trade, say authors Colin Carter, Alex McCalla, and Andrew Schmitz. Carter and McCalla are agricultural economists at the University of California at Davis and Schmitz is at the University of California at Berkeley.

Colin Carter, Alex F. McCalla, and Andrew Schmitz, Canada and International Grain Markets: Trends, Policies, and Prospects, Ottawa, Supply and Services Canada (Cat. No. EC22-158/1989E; $9.95 in Canada and US$11.95 in other countries).

Their research was commissioned by the Economic Council of Canada but the conclusions are those of the researchers. A Council policy statement on the Prairie grain economy, which was published in November, drew, in part, on this research. Another study on the grain market outlook for Canada and other major grain-producing nations was released by the Council in February this year.

The Carter-McCalla-Schmitz study traces trends in the global grain trade, evaluates government intervention in grain production and trade in various countries, and weighs future prospects with and without multilateral free trade. The study also looks at the potential impact of free trade in agriculture in one particular case, Japan.

Government policies, such as subsidies and import measures, are a major factor in the world grain trade, the study says. By subsidizing their grain sales, grain-exporting countries are actually giving money to importing nations, among the most important of which are Japan and the Soviet Union. The study indicates freer trade would lead to higher prices and greater price stability.

The authors conclude that Canada stands to gain proportionately more from global free trade in agriculture than the world's leading grain exporter -- the United States -- and an important importer -- Japan.

They arrive at this conclusion by looking at gains and losses for taxpayers, consumers, and farmers in the United States, Japan, the European Community, and the rest of the world.

Taxpayers in all countries lose under the current system of subsidies and import barriers. So they would benefit if these

were removed. Consumers in Japan would gain more than in other countries because high retail prices artificially created by the Japanese government would fall.

Canadian farmers have lost money because of global trade barriers while European, Japanese, and American producers have gained, says the study. Subsidies in the European Community and the United States have been higher than in Canada while import measures protect Japanese farmers.

The authors note that there may be different reactions among Canadian farmers to dropping agricultural trade barriers. For instance, supply management boards are more important in eastern Canada than in western Canada so most eastern farmers may oppose freer trade while their western counterparts may favour it.

"Who, then, will Canadian negotiators negotiate for? Will it be for wheat, broiler, or dairy farmers; the consumer; or the taxpayer?"

It is this difficult political issue which faces governments in many grain-exporting countries. For this reason, the authors are cautious about chances of success in wiping out agricultural trade barriers in the current round of GATT talks. Farm groups opposed to freer trade are powerful in several countries.

One option would be to rely more on long-term bilateral agreements. Canada has already followed this route as a growing share of Canadian grain exports have gone to Soviet Bloc countries. But the study says that this does not avoid price-cutting competition as Canada competes with the United States which subsidizes its grain exports.

Another approach would be for grain exporters to cooperate on grain stocks and supplies, a step that could run counter to GATT trade principles.

In general, Canada's grain farmers depend more heavily on exports than producers in other major competing countries. This country also lacks the financial resources to sustain a subsidy war with leading grain exporters.

This means that "there may be no action that Canada can take to turn the situation around, except perhaps to try to influence the policy choices of other nations," says the study.

Ultimately, "cooperative or multilateral approaches are critical to Canada." Future policy should be flexible and should contain options.

> The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release Communiqué

PR89/05

FOR RELEASE ON
APRIL 19, 1989

REGULATORY DIFFERENCES PROBED

OTTAWA -- What should be done to deal with the clashing interests of consumers, taxpayers, and privately owned utilities?

A quick answer is regulation. But a just-released study by a Queen's University professor makes clear that there is more to it than that because regulation of utilities has developed in different ways in Canada and the United States.

And the approach in this country has varied from nationalizing private companies to creating regulatory commissions.

Baldwin's research on water, gas, electricity, telephone, and transportation utilities was supported in part by the Economic Council of Canada but the conclusions are his. The research helped contribute to a Council report on public enterprise which was made public in 1986.

In general, regulation can include relying on vigorous competition in the marketplace, or public enterprise, or various kinds of regulatory tribunal.

John R. Baldwin, Regulatory Failure and Renewal: The Evolution of the Natural Monopoly Contract, Ottawa, Supply and Services Canada (Cat. No. EC22-157/1989E; $11.25 in Canada and US$13.50 in other countries).

The Baldwin study shows that the type of regulation chosen over the years depended on particular economic problems, and the nature of the constitutional, legal, and political systems across Canada and in the United States.

Comparing Canada and the United States, it says that differences in regulation are linked to the different legal and constitutional systems in the two countries.

In the United States, private companies had a larger role in water, gas, electricity, telephone, and transportation services than in Canada. Governments eventually moved to control virtual private monopolies through tribunals to ensure that private companies received fair profits and consumers fair prices.

In Canada, public enterprise was used more frequently and regulation did not evolve to the same extent in the early part of the century.

Baldwin points out that the economic problems in the utility sectors were basically the same in both countries. The early form of regulation was a long-term franchise contract between utilities and consumers.

But by the turn of the century, this was no longer adequate. Among other reasons, competitors had vanished by the time contracts were to be renewed and the threat of competing bids could no longer be used to keep prices down.

Baldwin notes that the constitutional protection given to private property differed in the two countries and contributed to quite different solutions.

In the United States, constitutional protection for private property led to active regulation by tribunals or commissions. Canada did not have the same protection so it adopted a broader range of approaches.

In some cases, the lack of protection for private property in Canada during renegotiation of franchise contracts led to government nationalization and expropriation without compensation. Baldwin details the federal takeover in the railway sector and the creation of Ontario Hydro as cases in point.

In some cases, utilities were left virtually unfettered for decades -- Quebec and British Columbia were examples. In a few instances -- Nova Scotia, New Brunswick, and Alberta -- the American form of regulatory tribunal was adopted even without the U.S. system of constitutional protection for private property.

Looking at reasons for different solutions across Canada, the study indicates federal-provincial conflicts over jurisdiction sometimes influenced the choice. Manitoba's need to nationalize the telephone industry and its foray into public ownership of hydro-electricity are cases in point.

In other cases, there were significant differences in the public demand for regulation which influenced how strongly the provincial government intervened. Here the study compares Ontario and Quebec.

The study concludes by pointing out that the same problems that faced governments at the turn of the century are with us today and are no less easy to resolve.

Regulation involves a contract between the public and private parties. Writing and enforcing the terms of a fair contract are still major issues.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release Communiqué

PR89/06

DO NOT RELEASE BEFORE
11:00 A.M. (EDT)
JUNE 7, 1989

COUNCIL PROPOSES STEPS TO IMPROVE FINANCIAL SYSTEM

OTTAWA -- The Economic Council of Canada today proposed steps to strengthen Canadian financial firms and to improve financial services in a fiercely competitive world marketplace.

Canadian borrowers -- particularly governments and major corporations -- are plunging aggressively into international money markets which are changing with bewildering speed, said the Council in a policy statement. In fact, Canadians now borrow more on international markets as a share of Gross National Product than do citizens of other major industrialized nations.

Major borrowers and investors are benefitting from the trend to a more global marketplace and to new financial services. But the Council has found that small and medium-sized businesses have not yet reaped the same gains.

The Council also discovered that Canadian banks and securities firms have been losing ground in comparison to their leading competitors from other countries in these rapidly growing international markets.

A New Frontier: Globalization and Canada's Financial Markets, Ottawa, Supply and Services Canada (Cat. No. EC22-160/1989E; $5.95 in Canada and US$7.15 in other countries).

The Council's Statement stressed the benefits to Canadians of the more competitive financial markets and the innovative services. At the same time, it noted that the solvency and stability of Canadian financial firms must be maintained. Sweeping change in financial markets has made it increasingly difficult to keep track of financial transactions, posing problems for regulators.

With these findings in mind, the Council outlined measures to achieve a balance of competition and solvency at both the domestic and international levels.

The Council's policy statement is based on extensive research on international financial markets and will be followed later this year by a report elaborating on the research findings.

Among the Council's findings and recommendations:

-- Federal and provincial governments should "harmonize" their regulations -- make rules in different jurisdictions compatible. Harmonization would mean agreement among federal and provincial governments on basic solvency standards while continuing to allow for differences of approach in specific areas. This is important to improve supervision and to enable Canadian financial firms to become more competitive internationally.

-- An organization of federal and provincial regulators should be set up to help achieve this harmonization and to coordinate supervision of financial firms including improved sharing of information.

-- One of the most dramatic developments in financing in recent years has been a substantial shift from traditional bank lending to "securitized" forms of lending such as bonds, notes, short-term

paper, and the packaging of loans into securities pools. Securitization has a variety of benefits ranging from making more funds available to borrowers -- often at a lower cost -- to helping financial firms diversify their assets.

-- Canadian governments should create a climate where innovations in financing could flourish.

-- This should be done by: modifying legislation to remove barriers to new services; actively informing small and medium-sized businesses about these innovations; and encouraging the development of a market for securitized business loans by packaging commercial loans into securities pools. The Federal Business Development Bank should play a role as catalyst in developing these pools.

-- Canadian financial institutions should be required to report transactions that have not been included on their balance sheets. If requested, they should provide information on the other parties to deals in such new services as "swaps" where a borrower or lender may make a series of transactions to get the right mix of payment terms.

-- Because of the shift to securities dealing from traditional bank lending, financial institutions have become relatively more subject to "position risk" -- the risk that they will be hurt by a change in interest or exchange rates -- than to "credit risk" -- the risk of failure of the other party to a deal.

-- Regulators should set up methods of monitoring the position risk of financial institutions. As well, they should establish capital requirements for these institutions that take into account all the credit and position risks they have assumed.

-- The exploding growth of international financial markets has increased problems for regulators trying to maintain the solvency and stability of the financial system. It is harder for them to follow international transactions. And new financial instruments are often not included on balance sheets because they are not considered assets or liabilities under conventional accounting techniques.

-- Canadian authorities should play an active role in developing and implementing international accounting standards; in cooperating with other countries in generating better information on international financial deals; and in improving international coordination in supervising financial firms.

-- To strengthen competition, foreign financial firms should be allowed into all segments of the Canadian financial system as long as Canadian firms are allowed into the foreign country on the same footing as local institutions.

-- Nonfinancial firms should not be allowed to have large stakes in the ownership of deposit-taking institutions such as banks and trust companies. Investors with commercial interests who already have a majority stake in such institutions would be allowed time to reduce their ownership to a minority role.

-- Canadian banks and securities firms have managed a declining share of the important Euro-bond market in recent years. In terms of assets, Canadian banks account for a smaller share of the international pie than they did in the early 1980s.

-- Legal limits on foreign investments by pension funds should be gradually removed. The current rule imposes a special tax on pension funds when their investments abroad amount to over 10 per cent of their total assets. This is costly to the pension funds

and their members because the funds can't get the highest rate of return on their investments.

The Council also outlined other findings and proposals, among them suggestions for improving financial safety nets for financial institutions.

The entire Statement was endorsed by all Council members except for a dissent by Council member Tom Courchene to the recommendation on ownership of financial firms by nonfinancial companies. His view was supported by Council member Marcel Pepin.

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News Release

Communiqué

PR89/16

DO NOT RELEASE BEFORE
11:00 a.m. (EST)
NOVEMBER 1, 1989

COUNCIL ISSUES WARNING ABOUT ECONOMIC FUTURE

OTTAWA -- Canadians risk leaving their children a leaner economic legacy than they inherited if current trends continue, says the Economic Council of Canada (p. 4)*.

The Council notes in its 26th Annual Review of the economy, released today, that slow productivity growth, a heavy national debt, an aging population, and environmental damage are all warning signs for the future.

Workers have seen a levelling-off in real wages in the last decade after rapid growth in the 1960s and 1970s (p. 33). And the Council projects little improvement in the next 10 years (p. 26).

Among steps to improve the outlook, the Council suggests measures to lift some of the debt burden from the backs of Canadians by balancing the federal budget years ahead of current forecasts (pp. 28, 67-69). And it stresses the need for greater effort to make Canadian industry more productive and competitive (pp. 4, 10-16, 64-65, 69).

While attacking these problems, governments should not allow public services to deteriorate. And they should deal with

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Twenty-Sixth Annual Review, Legacies, Ottawa, Supply and Services Canada (Cat. No. EC21-1/1989E; $8.95 in Canada and US$10.75 in other countries).

economic incentives which influence actions by businesses and individuals (p. 61).

Other important points:

-- Simulations of the aging Canadian population show that the proportion of Canadians aged 65 and over will double or triple in the next 50 years while the working age group will steadily decline to 50 per cent from 60 per cent (p. 54). Canada will have to boost productivity growth so that incomes will climb to cover rising health and pension costs (p. 56).

-- An average young family under age 25 in 1987 had a real income that was 14 per cent lower than that of a similar family a decade earlier. This underlines the fact that younger workers have generally fared worse than older workers in recent years (pp. 35-37).

-- There is evidence that middle-level, middle-income jobs are taking a declining share of the job pie with employment growth primarily in high-income or low-income, low-skill positions. As well, there is a growing trend toward short-term jobs and part-time work which may make it difficult for many young and middle-aged workers to build an adequate pension (pp. 37-39).

-- Economic growth is expected to average about 2.7 per cent over the next 10 years with slightly higher figures in the first half of the decade. The unemployment rate will likely fall gradually during that period. Inflation is expected to range between 4 and 6 per cent, except in 1991 when the goods and services tax is to be introduced (p. 26).

-- While there has been progress in dealing with pollution, it "appears pitifully small" compared to major global environmental hazards (p. 59).

The report was endorsed by the majority of the 21 members of the Council board. Diane Bellemare and Marcel Pepin dissented and William Mackness added a comment (pp. 71-72).

HIGHLIGHTS OF THE TWENTY-SIXTH ANNUAL REVIEW

THE DEFICIT

- If the United States takes action to reduce its deficit, a parallel package of spending cuts amounting to $4.6 billion and lower interest rates could wipe out the federal deficit in Canada by 1994. The inflationary impact would be minimal.
- The suggested spending cuts are examples only, but reductions should cut deeper into business subsidies than in other programs (p. 69).
- With no change in policy, the budget would not be balanced until 1998 or 1999 (p. 23).
- As part of a bundle of economic targets, the government should aim at reducing the deficit to 1.5 per cent of Gross Domestic Product by 1993 -- it now stands at 3.6 per cent. It is the one change from the Council's 1988 targets for the economy (pp. 67-69).
- Other targets deal with growth in productivity, employment, and Gross Domestic Product; the rates of inflation and domestic savings; preserving the objectives of social programs; and achieving regional economic balance (p. 67).
- The government has such a heavy debt to pay off that it has virtually no room for additional spending programs. Yet future demands on the federal treasury will be substantial as the population ages (p. 67).
- The federal cabinet should take a carefully balanced approach to reducing the deficit. Falling interest rates, for example, could offset any dampening effects from cutting government spending. And Canada should speed up its efforts to reduce the deficit if the U.S. budget situation improves (p. 69).

POPULATION CHANGE AND PRODUCTIVITY GROWTH

- Industry must become more productive if Canadians are to increase incomes, cover the costs of an aging population, and meet other demands in the next 50 years.
- "... if the productive potential of the economy does not expand to cover the increased needs of the elderly ... future workers will have to lower their consumption or reduce the public and private investment that adds wealth to society, and they will have to pass the costs on to their offspring (p. 55)."
- Productivity will have to increase more quickly than the current average rate of about 1 per cent a year to ensure that living standards of workers and pensioners continue to rise (pp. 52-56).
- The Economic Council of Canada presents population simulations including a base -- or most likely -- case and high- and low-growth cases involving different assumptions about birth and immigration rates (p. 52).
- The simulations show that the elderly will account for anywhere between 23 and 37 per cent of the population in 2040, up from just 11 per cent in 1988. At the same time, Canadians of working age will decline to about 50 per cent from 60 per cent now (pp. 52-54).
- Productivity growth in Canada has slowed considerably since the 1960s when it averaged 3 per cent annually. In fact, Canadian manufacturing productivity levels now lag behind the United States, West Germany, France, and Italy (pp. 12 and 63).
- Economists cannot agree on the causes of the world slowdown in productivity growth. But ultimately management in the public and private sectors must "take the initiative in adopting the new technologies and in training and organizing the work force so that it may use them effectively (p. 64)."

INCOMES AND JOBS

- Incomes have risen faster for older Canadians than for younger workers in recent years (p. 35).
- Overall, real wages -- actual wages minus inflation -- have remained flat over the last decade for working Canadians. Family earnings have risen because more family members are now employed than a decade earlier (p. 33).
- While average earnings have virtually stood still, older Canadians have seen their economic lot improve because of increased pensions or investment income (pp. 34-35).
- Real incomes of individuals over age 65 have climbed 38 per cent in the last 10 years. As well, the proportion of individual Canadians over 65 who are below the poverty line has fallen dramatically (p. 35).
- As the other end of the spectrum, a young family under age 25 had a real income in 1987 that was 14 per cent lower than that of a similar family a decade earlier (p. 35).
- The labour market has changed significantly with middle-income jobs shrinking in relation to high- and low-income jobs (p. 37). As well, 97 per cent of new jobs in the last decade were in white-collar, service industry-type occupations -- often lower-paying than blue-collar jobs in manufacturing (pp. 37 and 40).
- While employment has grown faster in Canada than in most industrialized countries in the 1980s, there is continuing high unemployment outside Ontario. And there are a growing number of "disguised unemployed" -- those who would rather work full-time but can only find part-time jobs (pp. 38-39).
- "Canadians with good jobs at the low-income end of the scale, their savings and vested pensions fuelled by high interest rates, can look forward to a relatively affluent retirement but for those currently in low-paying, entry-level jobs that have limited career prospects, the future may be bleaker (p. 46)."

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* Page references are to Legacies, the text of the 26th Annual Review of the Economic Council of Canada.

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News Release Communiqué

PR90/01

FOR RELEASE ON
JANUARY 10, 1990

SPEED UP REFORM OF FINANCIAL REGULATION: MAXWELL

OTTAWA -- Canadian governments should accelerate reform of financial regulation because delay is costly, says Judith Maxwell, Chairman of the Economic Council of Canada.

Maxwell said today that Council research makes clear that Canada is being left behind as changes abroad in financing techniques and financial legislation transform international financial markets.

Council research, made public in a report released today, indicates that innovative methods of financing and a strengthened financial system bring benefits to financial firms, borrowers, and the economy as a whole. These benefits range from cost savings for borrowers and lenders to greater financial stability.

Delays in reforming the domestic system to permit greater flexibility and to bolster solvency simply deprive Canadians of these gains, the Council Chairman noted.

She added that the Council made public a report on reforming domestic financial legislation in 1986 at a time when new federal legislation was expected. Federal reforms were still pending when

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Globalization and Canada's Financial Markets, Ottawa, Supply and Services Canada (Cat. No. EC22-162/1989E; $15.90 in Canada and US$19.15 in other countries.)

the Council issued a policy statement on international financial markets in June 1989, and they have yet to be introduced.

The just-released research report, Globalization and Canada's Financial Markets, provides the detailed research findings behind the Council's June policy statement.

Among the report's findings:

-- Inconsistent regulation by federal and provincial agencies imposes costs on financial firms operating under more than one jurisdiction. And lack of cooperation among agencies may increase risks that financial firms will go bankrupt because regulators are not well enough informed on the firm's dealings.

-- New methods of financing such as currency and interest rate swaps lower borrowing and production costs for firms and make them more competitive in world markets. Swaps permit borrowers to obtain the interest rate or currency they want through exchanges with other borrowers on financial markets.

-- The packaging or mortgage and commercial loans into pools of securities that are sold to investors is an innovation which improves borrowing for smaller firms and makes them more competitive.

-- On the other hand, some cost-saving financial innovations increase the riskiness of the financial system and could potentially impose costs on ordinary Canadians unless measures are taken to improve regulation.

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News Release Communiqué

PR90/2

DO NOT RELEASE BEFORE
10:00 A.M. (EST)
FEBRUARY 14, 1990

EMPLOYMENT POLICIES PROPOSED

OTTAWA -- Current trends point to a continued shift toward service industry jobs, an increased demand for highly-skilled workers, and more short-term and casual employment in the 1990s, says the Economic Council of Canada.

The Council said in a policy statement released today it also expects good, well-paying jobs will continue to be concentrated in large cities, a trend that could widen regional disparities.

As well, there could be a growing gulf between high-paying and low-paying jobs with fewer middle-income positions. Research indicates there has been a steady increase in high-skill, high-pay and low-skill, low-pay jobs and a decline in middle-level employment.

Judith Maxwell, Chairman of the Economic Council of Canada, said these trends will create increased pressure for an improved education system and better skills training. It also raises serious policy questions about such factors as labour adjustment policy and benefits for casual and part-time workers.

Good Jobs, Bad Jobs: Employment in the Service Economy, Ottawa, Supply and Services Canada (Cat. No. EC22-164/1990E; $5.95 in Canada and US$7.15 in other countries).

"Canadians must deal with these issues," Maxwell said. "If we don't, we stand to lose ground in world markets and more of our workers will face an insecure future."

The policy statement, based on research on employment in the service sector, urges the federal government to transform the Unemployment Insurance Fund into an Employment Insurance Fund, placing greater stress on skills training and counselling for unemployed workers. And there are a range of other proposals including one calling for private sector efforts to set up sectoral training plans in industries where individual firms have no strong training tradition.

While the overwhelming majority of the 23-member Council approved the policy statement in its entirety, there were additional comments by Council members Peter Brophey, Chester Johnson and Graham Wilson who took issue with some aspects.

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News Release Communiqué

PR90/3

FOR RELEASE ON
APRIL 5, 1990

CANADIAN FIRMS FIGHT BACK

TORONTO -- Canadian manufacturing firms typically react to increased pressures in world markets by fighting back rather than surrendering, says a new study by Harvard University professor Richard Caves.

The Caves study, released in Toronto today, concludes that Canadian firms tend to adjust to increased foreign competition by reorganizing production to become more efficient. These firms use a variety of economic tools ranging from stepped-up investment to moving into a new product line and increasing exports.

Overall, the study paints a picture of a dynamic manufacturing sector active in international markets and ready to respond to new challenges. It rejects the theory that Canadian manufacturers are only able to survive because of high tariff walls shutting out foreign competition.

The ground-breaking research on the way Canadian firms react in the short run to changes in international competition was carried

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Richard E. Caves, *Adjustment to International Competition: Short-Run Relation of Prices, Trade Flows, and Inputs in Canadian Manufacturing Industries*, Ottawa, Supply and Services Canada (EC22-165/1990E; $6.50 in Canada and US$7.80 in other countries).

out for the Economic Council of Canada's project on the Canada-U.S. free-trade agreement. The Council issued a policy statement on the free-trade agreement in 1988.

"My findings suggest that Canadian manufacturers, in general, should respond well to increased competition under the free-trade agreement," said Caves in releasing his study.

The Caves study is the first to look at the impact on individual Canadian manufacturing industries of changes in world prices and foreign competition. The Harvard professor used 1970s data, the most recent available to him when he carried out his research. In the 1970s, Canadian firms faced a couple of world energy price crises and tariff reductions under the Tokyo Round.

Among Caves' conclusions:

-- An industry facing increased competition from imports in the 1970s tended to boost its own exports, although this depended largely on freer trade in that industry worldwide. For example, a manufacturer confronted by competition from a foreign firm in a particular line might react by moving into a different line and exporting.

-- Tariff reductions led to changes within Canadian manufacturing industries involving greater capital spending and higher labour productivity.

-- Industries with a wide variety of different products reacted more slowly to changes in prices of competing imports than did other industries with a narrow range of products.

-- The tendency to adjust in the face of foreign competition was strongest in industries where foreign subsidiaries played a strong

role. But both domestic and foreign units took part in the changes.

For more information, contact
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The findings of this study are the personal responsibility of the authors, and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release Communiqué

PR90/4

FOR RELEASE ON
JUNE 6, 1990

STUDY OFFERS NEW LOOK AT INDUSTRIAL CHANGE

OTTAWA -- A research report, released today, offers new insights into industrial change and questions designing policies to protect specific industries.

The study, carried out by economists John Baldwin and Paul Gorecki, finds that the small number of jobs that seem to shift from one sector of the economy to another every year masks much more extensive change.

The authors conclude there is considerable turnover of workers, firms, and plants, particularly within industries. There is also movement from one industry to another which can become significant over a period of years.

In manufacturing, at least 30 per cent of jobs that existed in 1971 had disappeared by 1981 because of plant decline and closure. But the number of jobs gained because of plant expansion or new plants was substantially higher.

John R. Baldwin and Paul K. Gorecki, *Structural Change and the Adjustment Process*, Ottawa, Supply and Services Canada (EC22-166/1990E; $20.95 in Canada and US$25.15 in other countries).

As well, turnover in jobs and workers in industries facing tough import competition -- textiles, clothing, and knitting, in particular -- was much the same as in manufacturing as a whole. The authors used two main data bases -- one on the creation and destruction of jobs and another on the reasons for employees leaving employers.

Baldwin and Gorecki say that previous studies, which took a less comprehensive look at these issues, underestimated the amount of change. This gives a sense of stability that is often inaccurate.

They say policymakers need benchmarks against which to gauge the impact of changes in tax or trade policies. Without a good understanding of industrial change, there is a danger that "expensive solutions to imagined problems will be developed, thus leaving the real problems unsolved."

If a large portion of the work force is constantly moving from one job to another for a variety of reasons, it is hard to pinpoint a particular cause for layoffs due to plant closures -- say, tougher foreign competition -- and design policies targeted at specific groups or industries.

Based on their findings, the authors suggest that governments should focus on overall policies that promote the growth of all industries rather than attempting to shore up a particular troubled industry.

Baldwin, an economics professor at Queen's University, is currently of a visiting fellowship at Statistics Canada and Gorecki, a senior economist at the Economic Council of Canada, is on secondment to Statistics Canada.

Their work was launched as background research for a Council policy statement in 1988 on adjustment for manufacturing industries faced with strong foreign competition. The research was supported by the Council and Statistics Canada.

The research breaks new ground in that it ties together material on the rise and fall of firms in industry and information on the reasons for workers leaving their jobs -- voluntary or forced.

It looks at these issues from a number of angles:

-- Job loss through plant closures and decline;
-- Job gain through plant openings and expansions; and
-- Workers leaving jobs through layoffs or their own choice.

While the study focuses mainly on manufacturing, it also provides detailed information on other sectors of the economy.

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News Release Communiqué

PR90/5

DO NOT RELEASE BEFORE
11:30 A.M. (EDT)
JUNE 27, 1990

COUNCIL OUTLINES LOCAL DEVELOPMENT PROPOSALS

OTTAWA -- Proposals aimed at bolstering economic-development efforts initiated in small communities were made public today by the Economic Council of Canada.

The Council stated that people banding together at the local level to promote community economic development "can make a real difference" in many places across the country. Local residents are often in a better position to judge the economic problems and possibilities of their communities than are federal or provincial bureaucrats.

For that reason, the Council sets out guidelines for federal and provincial policies to encourage decision-making and self-help through local development organizations (LDOs). These would not replace broad regional development programs and would not involve extra government spending. Federal and provincial governments now spend about $230 million on community development programs.

Communities set up local development organizations to improve their capacity for development. LDOs can have a wide range of

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From the Bottom Up: The Community Economic-Development Approach, Ottawa, Supply and Services Canada (EC22-170/1990E; $4.95 in Canada and US$5.95 outside Canada).

activities, such as providing better business information and training local people. They have also launched business ventures.

In designing its policy guidelines, the Council stressed that "local development approaches do not work economic magic" -- they can only work where there is potential for growth. And the basic strategy in community development should be to make the market work.

One key proposal is that government assistance for communities should be channelled into setting up LDOs and enabling them to create information networks, train people, and seek out market opportunities. LDOs' business ventures should be funded by existing business assistance programs.

Among other proposals:

-- Local development organizations should be required to make some commitment of their own resources before gaining federal or provincial support. This commitment will help governments select the communities to assist.

-- In choosing communities to help, governments should base their decisions on a combination of need and the potential for development.

-- Smaller and more remote communities should have priority over neighbourhood areas in large cities in getting government funding because they face greater difficulties in obtaining the money and information they need.

The Council also said that local development organizations should be as free from bureaucratic involvement as possible.

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News Release Communiqué

PR90/6

DO NOT RELEASE BEFORE
11:00 A.M. (EDT)
OCTOBER 3, 1990

COUNCIL CHARTS NEW PATHS TO KEY ECONOMIC DECISIONS

OTTAWA -- The Economic Council of Canada called on governments, business, and labour today to spawn Canadian-made cooperative arrangements to deal with inflation and unemployment at the same time. (p. 58)*

Canadian government and private sector leaders must admit that "there is something fundamentally wrong" with past efforts to deal with such economic problems, the Council said in its Twenty-Seventh Annual Review of the economy. (p. 58)

The Annual Review noted that new economic problems can emerge if policymakers rely solely on high interest rates to fight inflation or if governments take opposing economic paths. (pp. 54, 57)

Without coordinated economic policies in the 1990s, "Canada's options will be limited and unappealing," the Council said. (p. 58)

Twenty-Seventh Annual Review, *Transitions for the 90s*, Ottawa, Supply and Services Canada (EC21-1/1990E; $11.95 in Canada and US$14.35 outside Canada).

The report tackles a key question: must Canadians periodically accept high unemployment as a tradeoff for lower inflation? The Council's answer is that both can be attacked at once if Canadians are prepared to work collectively toward the same goals. And it outlines several possible options. (pp. xi, xii)

The pressing problem of persistently high unemployment after eight years of economic growth is a handicap as Canadians confront a world of rapid political and economic change. This country will have to adjust to the competitive force that will emerge in coming years from reforms in Eastern Europe, a more tightly integrated Western Europe, the rising economies of Asia, and a new North American trading bloc. (pp. 1-18)

The impact of world events in the 1980s has already led to important changes in jobs and in real interest rates. Canada's capacity to adjust has not kept pace.

The Council report pinpoints several causes for stubbornly high jobless rates and analyzes the unemployment issue in each region (see Charts 1 and 2). Major factors include regional differences in economic structure, local market conditions, and government policies. (pp. 34-40)

After looking at cooperative efforts in other countries to promote economic growth and full employment, the Council concludes that Canada cannot duplicate these successes but must develop its own coordinated approach. (p. 48)

Its suggestions for the unemployment problem range from partnership between government, business, and labour in training and adjustment decisions to changes in the unemployment insurance system to encourage more retraining and more timely counselling and placement services. (pp. 50-54)

On the inflation front, it urges such steps as a clearly spelled-out inflation target and a coordinated effort by federal, provincial, and municipal governments to meet that goal. (pp. 54-58)

One of the main contributors to inflation since mid-1989 has been regulated prices, particularly in the service sector (see Chart 3). Included are prices influenced by federal, provincial and municipal policies in areas ranging from public transportation to food products controlled by marketing boards. (p. 20)

The report also outlines the Council's basic economic projections along with alternative scenarios which analyze the cost of disinflation. In its base case, the Council suggests inflation will settle in the 4 to 6 per cent range in the next five years with the federal budget deficit gradually declining and unemployment sticking at 7 or 8 per cent. (pp. 24-31)

Council members, as a whole, endorse the Annual Review.

*Page references are to *Transitions for the 90s*, the text of the Twenty-Seventh Annual Review of the Economic Council of Canada.

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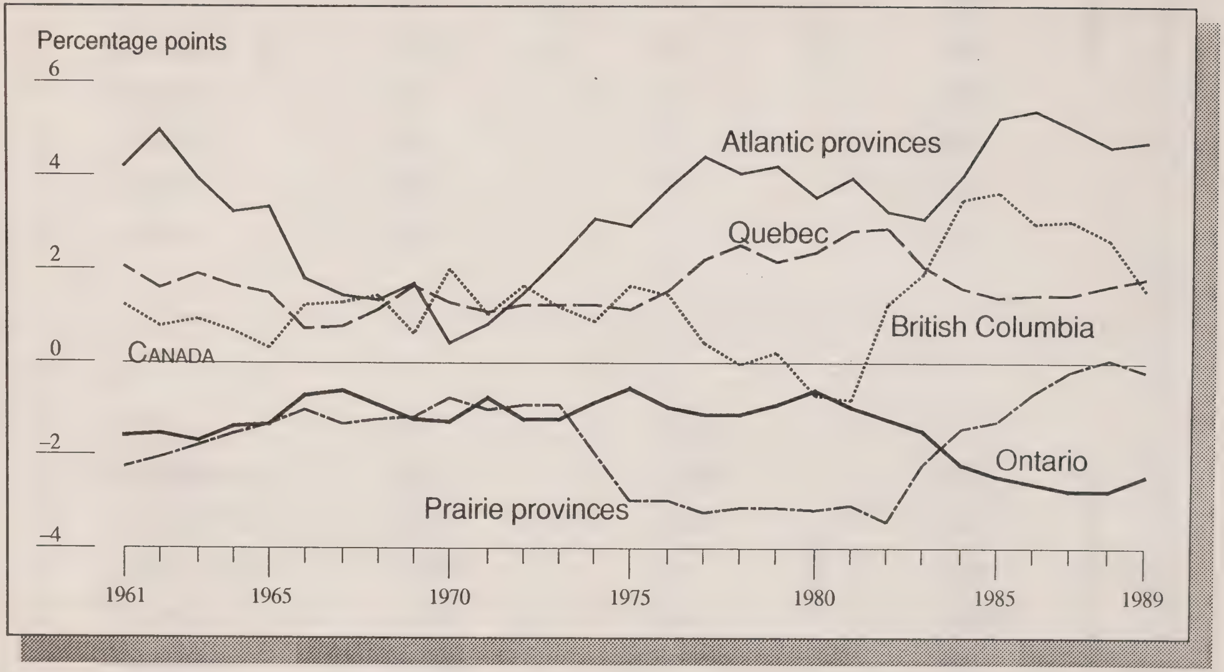
Chart 1

Difference between Provincial/Regional and National Unemployment Rates, Canada, 1961-89

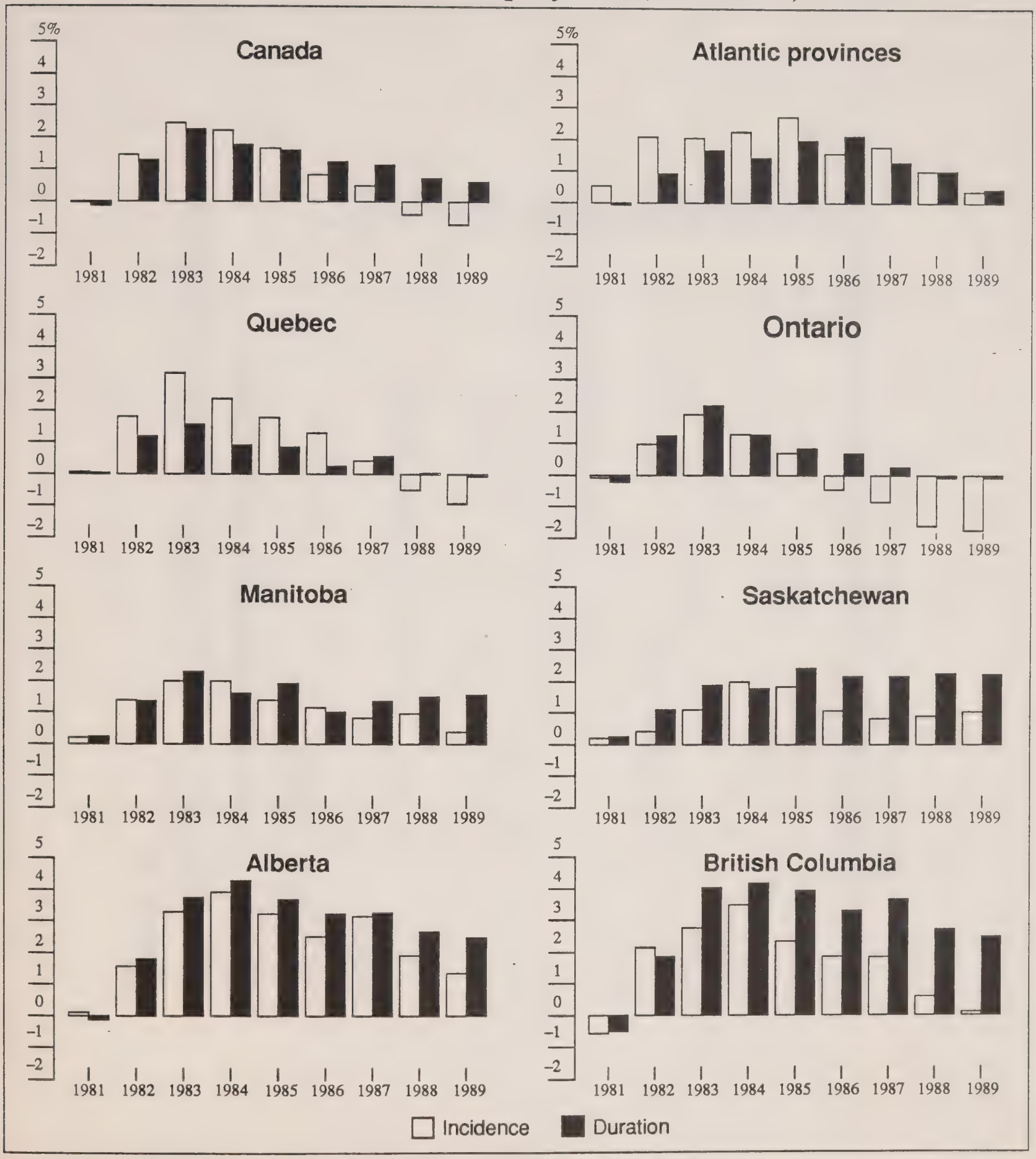


SOURCE Based on data from Statistics Canada.

20/09/90

Chart 2

Incidence and Duration of Unemployment,[1] Canada, 1981-89

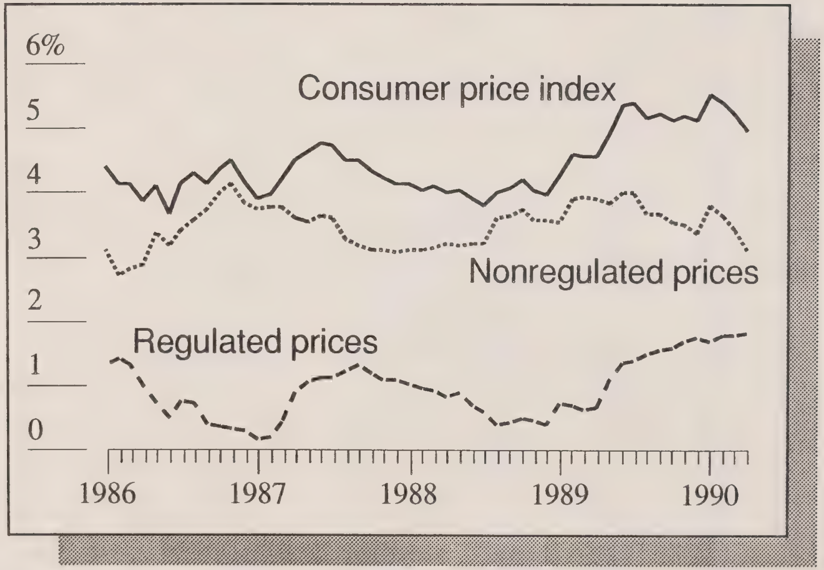


1 Change in the unemployment rate from its 1980 level.
SOURCE Estimates by the Economic Council of Canada.

15/09/90

Chart 3

Contribution of Regulated and Nonregulated Prices to the Consumer Price Index, Canada, 1986-90



SOURCE Based on data from Statistics Canada.

8/09/90

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News Release Communiqué

PR91/1

DO NOT RELEASE BEFORE
11:00 A.M. (EST)
FEBRUARY 20, 1991

IMMIGRATION STATEMENT DISPELS MYTHS

OTTAWA -- What impact does immigration have on Canada?

The answers, outlined in an Economic Council of Canada policy statement released today, are bound to surprise many Canadians.

Council research undercuts views that there are significant economic gains or losses to Canada from immigration and that prejudice rises with an increased flow of immigrants. Researchers found small economic benefits to Canadians from immigration and rising tolerance of visible minorities (pp. 6-14, 27-31, 34).

The Council looks at economic, social, political, and humanitarian factors and then recommends a gradual increase in immigration over the next 25 years for humanitarian reasons and for the benefits to Canadian of a more diverse society. It also makes a number of proposals mainly aimed at lessening the risk of social tension (pp. 34-41).

Among the key research findings:

New Faces in the Crowd: Economic and Social Impacts of Immigration, Ottawa, Supply and Services Canada (EC22-171/1991E; $7.95 in Canada and US$9.55 in other countries).

-- Nationally, tolerance for visible minorities has grown in recent years (p. 29).

-- Surprisingly, people in communities with higher proportions of visible minorities are likely to be more tolerant of racial and ethnic differences (p. 27-28).

-- There is no general tendency to discriminate against visible minorities in wages and salaries with the possible exception of Caribbean and East Asian immigrants (p. 23).

-- There is a very small economic benefit to Canadians, on average, from immigration through greater efficiency and a wider sharing of the future tax burden to pay for health, social security, and education (pp. 7, 8, 13).

-- On balance, evidence shows that a steady rate of immigration does not cause unemployment because the number of firms expands to create new jobs (p. 17).

-- Immigration is likely to have little effect on the relative distribution of population and economic power within Canada over the next 25 years (pp. 19-20).

"Immigration offers a rare chance for a policy change where everyone can gain," the Council said (p. 41).

Policy proposals balanced the social and humanitarian advantages of increased immigration with the need to promote social harmony and reduce tensions.

The Council recommendation for a gradual increase in immigration would mean a steady climb to one per cent of the population by 2015. In effect, that is an increase to about 330,000 immigrants a year in 2015 from about 170,000 in 1991. The levels would be reviewed every five years (p. 34).

The amount of immigration proposed by the Council in the early 1990s would be somewhat lower than that announced recently by

New Faces in the Crowd

Recommendations

1 We recommend that immigration be gradually increased above the average levels of the last 25 years, to reach 1 per cent of the population, on a gross basis, by the year 2015. These levels should be reviewed every five years, to verify that the integration of immigrants is being successfully managed.

2 We recommend that a "moral contract" outlining the responsibilities of both hosts and immigrants be developed by the appropriate government agencies, in consultation with immigrant groups, and that its purpose and content be widely diffused. We further recommend that it be used in informing and counselling prospective immigrants before their arrival in Canada.

3 We recommend that a major strategic initiative be taken to combat racism and foster tolerance. The strategy should be devised and implemented jointly by federal, provincial, and municipal authorities, along with the private sector, including both business and the trade unions, at the initiative of the Minister of Multiculturalism and Citizenship. As well, there should be strong backing for the Minister at the highest level – i.e., from the Prime Minister's Office.

Elements of the strategy that we are recommending should include at least:

i) Expansion in funding of the existing programs that fight prejudice at all levels, with the necessary money to be found by a combination of further diversion of funds from support of ethnic activities and a reordering of priorities from other government programs. In 1989/90, about $55 million was allocated federally to three programs – Employment Equity (Employment and Immigration Canada), Race Relations (Multiculturalism Canada), and the Human Rights Commission. Given that the number of visible-minority persons will rise rapidly, a doubling of this amount over the next decade would be appropriate. Similar proportional increases will be needed at other levels of government.
ii) Increased business, union, community, educational, and media involvement to extend their existing efforts to combat prejudice and promote integration;
iii) More obligation on the part of immigrants to learn English or French, since our research shows that this decreases hostility towards them;
iv) Information to defuse hosts' fears of unemployment and competition from immigrants – fears that our research shows to be unfounded;
v) The avoidance of sharp increases in immigrant inflow, which our results suggest are risky;
vi) Training of immigrants regarding cultural traditions that are inappropriate in Canada, especially with respect to gender equality and attitudes to authority figures such as police, social workers, and – in the eyes of many immigrants – public officials;
vii) Extensive race-relations training for police forces.

4 We recommend that more resources be devoted by Statistics Canada, in consultation with Multiculturalism and Citizenship Canada and other appropriate government departments, to the task of providing consistent measurement of social friction and its correlates. The choice of measurement methods should be made in consultation with academic faculties in the relevant disciplines.

5 We recommend that Multiculturalism and Citizenship Canada implement its planned replication of the Berry, Kalin, and Taylor 1974 survey of Canadian attitudes to multiculturalism. This survey should be complemented by a survey of immigrant attitudes about native-born Canadians and about their level of satisfaction with life in Canada. Both surveys should be repeated at regular intervals to monitor changes over time.

6 We recommend that the provincial and federal governments increase their efforts at disseminating information on the degree of equivalence or otherwise of foreign credentials and that they enlist the support of professional associations in this endeavour.

7 We recommend that men and women immigrants have equal access to language training.

8 We recommend that language training normally be partly charged for, but with a generous system of loans, subsidies, and exemptions in cases where the training is particularly beneficial to the host community rather than to the immigrant himself/herself, or in cases where cash payment by the immigrant or the repayment of loans taken in order to make cash payment would impose undue economic hardship. As in the case of Canada student loans, payment can be made retroactively after the immigrant has acquired a stable job.

9 We recommend that the balance among immigrant classes be kept close to the average values obtaining in the last 10 years.

10 We recommend that the operation of the investor class of immigrants be carefully monitored over the next few years, to determine whether it induces investment to occur in worthwhile projects that would not otherwise find funding and whether it creates a net benefit to the host society, as measured by the return on the investment.

11 We recommend that in determining the points allotted for occupation or whether points should be allotted at all, greater importance be given than at present to the need to obtain a balanced intake across all occupational groups.

Employment and Immigration Canada. But it would lead to higher numbers of immigrants by 2015 if the federal department's immigration levels beyond the mid-1990s remained in line with its 1995 figure (p. 35).

To encourage increased tolerance, the Council suggests a "moral contract" between immigrants and Canadians which would involve a voluntary, mutual commitment by both immigrants and the host population. Immigrants would undertake to respect fundamental Canadian values, removing a concern of some Canadians about integration of immigrants into Canadian society. At the same time, Canadians would agree to respect the language and culture of newcomers (pp. 36-37).

The Council also urges governments and the private sector to undertake a major national strategy to combat racism and intolerance (p. 37).

And it makes a number of other recommendations dealing with such issues as business class immigrants, the balance among immigrant classes, measuring social conflict, and the teaching of French and English languages to immigrants (pp. 37-41).

Council members overwhelmingly endorsed the report although one member, Dian Cohen, made additional comments.

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News Release Communiqué

PR91/2

FOR RELEASE ON
MARCH 21, 1991

EDUCATION, SKILLS KEY FACTOR IN WORKFORCE

OTTAWA -- The future looks increasingly bleak for workers with little education and few skills.

A just-released report by the Economic Council of Canada says that, compared with university graduates, workers with little education and training have steadily lost ground over the last 20 years in earning power, job security, and ability to get new jobs (pp. 111, 113, 118, 121, 122)*.

This is likely to continue in coming years, says the report, entitled *Employment in the Service Economy* (p. 113). It is a follow-up to a Council policy statement, issued last year, but contains additional analysis and more information.

The Council's analysis and research backs up -- in some aspects, for the first time -- claims that poorly educated workers are at a growing disadvantage in the workforce. At the same time, those with strong education and training are doing better than ever.

Employment in the Service Economy, Ottawa, Supply and Services Canada (EC22-172/1991E; $21.95 in Canada and US$26.35 in other countries).

In an increasingly competitive global economy, people are of key importance. In general, Canada has a skilled workforce which compares favourably with those of most other countries.

However, the Council found that there are areas where this country must improve.

In particular, Canada's training record does not compare well with those of some Western industrialized countries (pp. 128-129, 136).

"This does not augur well for those individuals who do not have access to training opportunities or for the long-run competitive position of the Canadian economy," says the Council report (p. 136).

Some of the report's findings:

-- In general, job skills are rising, partly because of technical change. Jobs demanding high skills -- managers, professionals, and technicians -- rose faster than any other kind of occupation. There was a significant drop in medium-skilled clerical, sales, and blue-collar jobs in the 1971-86 period (pp. 93, 110).

-- The likelihood of someone with less than nine years of schooling loosing a job doubled in the 1975-89 period (p. 116).

-- While job training programs may have an even higher payoff than formal schooling, Canada ranks last among six industrialized countries in providing company-sponsored training (p. 128).

The Council report also analyzes the rapid growth of the service sector, notes the close relationship between the goods and service

sectors, and points out the trend toward more casual and part-time employment.

As well, the Council found that in the 20-year period after the late 1960s, the proportion of middle-income jobs in the workforce shrank. Both upper- and lower-income jobs grew. How serious a problem this is depends on whether it will continue over the long term, the report said (pp. 142, 157).

*Page numbers refer to *Employment in the Service Economy*.

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News Release

Communiqué

PR91/3

FOR RELEASE ON
MAY 15, 1991

IMMIGRATION REPORT RELEASED

OTTAWA -- The Economic Council of Canada released today the detailed research report behind a recent Council policy statement on immigration.

The report outlines the in-depth research which led the Council to say in a February policy statement, *New Faces in the Crowd*, that income gains for Canadians from immigration are small, that tolerance of visible minorities is rising, and that rising immigration has had no effect on unemployment rates.

Among the major findings in the research report:

-- Immigration increases pre-tax income for Canadians because of greater cost efficiency through a larger domestic market, but the gains are very small (p. 36)*.

-- Pension costs will rise as the population ages, but the view that immigration can reduce the problem significantly is too optimistic (p. 50).

Economic and Social Impacts of Immigration, Ottawa, Supply and Services Canada (EC22-176/1991E; $19.95 in Canada and US$23.95 in other countries).

-- Newcomers entering Canada expand markets which leads to increased demand and production and new jobs. So unemployment does not rise (p. 62).

-- Careful analysis of 64 public opinion polls since 1975, of job offers to blacks and whites in Toronto, and of earnings of visible minority immigrants shows that tolerance of visible minorities has been rising (p. 119).

-- Although there is no systematic wage discrimination against immigrants, Canadian qualifications and experience pay more than foreign qualifications and experience (pp. 92-93).

-- Immigrants gain significant economic benefits from entering Canada (p. 26).

*Page numbers refer to *Economic and Social Impacts of Immigration.*

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News Release Communiqué

PR91/4

FOR RELEASE ON
JUNE 12, 1991

TAKEOVERS YIELD NO GAINS IN PROFITS

OTTAWA -- On average, Canadian companies that have been bought out by other firms are no more profitable after the purchase than they were before, says a just-released study.

The study, written by economists Abraham Tarasofsky and Ronald Corvari, says that a review of more than 100 companies acquired in the 1963-83 period reveals that about 40 per cent of them became more profitable and an equal number lost ground after they were taken over. The remaining 20 per cent showed no change (pp. 24-25*).

In effect, the study concludes that there has been much activity in corporate takeovers with little progress towards higher profits (p. 27).

The study, prepared for the Economic Council of Canada and released today, focused on firms that were "partially" taken over -- control changed hands but the firms' shares continued to

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Abraham Tarasofsky and Ronald Corvari, *Corporate Mergers and Acquisitions: Evidence on Profitability*, Ottawa, Supply and Services Canada (EC22-173/1991E; $8.75 in Canada and US$10.50 in other countries).

be sold on the stock market. It is one of the few studies in the world to look at both stock market and accounting measures of performance.

Somewhat similar conclusions on profitability have been reached by studies on mergers in the United States and Europe. But the analysis and research in the Tarasofsky-Corvari study extends and goes beyond previous work on Canadian corporate takeovers.

Some of the main conclusions of the new study:

-- Firms that are takeover targets are more likely to be poor or average performers rather than "winners" at the time they are purchased (p. 25).

-- More than half the poor performers showed improved results after mergers, about double the rate for winners. On the other hand, a much higher percentage of winners did worse than before after the takeover (p. 25).

-- There are opposing views about whether managers of acquiring firms want growth of their companies rather than higher profits which the shareholders desire (p. 31).

The authors also suggest that governments should take steps to create a climate which ensures shareholders are well informed about what is going on in the corporate sector. This might involve requiring companies to provide more information about subsidiaries that have been taken over (p. 33).

In addition, they say more research is needed into the impact of takeovers on workers (p. 34).

*Page numbers refer to *Corporate Mergers and Acquisitions: Evidence on Profitability.*

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The findings of this study are the personal responsibility of the authors, and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release

Communiqué

PR91/5

FOR RELEASE ON
JULY 3, 1991

FINDINGS ALLAY CONCERNS ABOUT INCOME PROGRAM

OTTAWA -- Fears that a guaranteed annual income would reduce the incentive to work are "largely misplaced," says a study by two University of Manitoba professors (p. 91*).

The study, written by Professors Derek Hum and Wayne Simpson, says that results from a social experiment in Manitoba show that a guaranteed annual income -- sometimes called a negative income tax -- had little effect on the incentive to work (p. 91).

These findings have implications for the debate about introducing a guaranteed annual income in Canada, say the authors.

The study, released today, was prepared for the Economic Council of Canada and the research was supported by Health and Welfare Canada, the Social Sciences and Humanities Research Council of Canada and Labour Canada. It is the first comprehensive attempt to use detailed information from the Manitoba Basic Annual Income Experiment (Mincome) to look at the work incentive issue.

Derek Hum and Wayne Simpson, *Income Maintenance, Work Effort, and the Canadian Mincome Experiment*, Ottawa, Supply and Services Canada (EC22-174/1991E; $12.95 in Canada and US$15.55 in other countries).

Mincome, a joint federal-provincial program, was launched in the early 1970s when interest in a guaranteed income was high. One of the key goals was to answer questions about the incentive to work. But the program died in the late 1970s and the data gathered lay untouched by researchers for years (pp. 43-47).

Under Mincome, a selected number of families from Winnipeg, Dauphin, and a number of rural communities received a basic annual income tied to family size and makeup and wealth. As family income or wealth increased, a tax formula ensured that the payment dropped (p. 49).

Looking at a sample of almost 1,200 families in Winnipeg, the authors found that this guaranteed income program led to fewer hours worked for men, married women, and single women who were heads of families. But the "effects were small and not statistically significant" (pp. 58, 60).

The authors also review theoretical work by economists on this issue and suggest that social experiments such as Mincome can be effective in evaluating public policies in certain circumstances (p. 92).

"While the cost of social experimentation is high," they note, "so too are the costs of repeated non-experimental research and ill-advised social policy decisions" (p. 92).

*Page references are to the study by Professors Derek Hum and Wayne Simpson: *Income Maintenance, Work Effort, and the Canadian Mincome Experiment*.

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News Release Communiqué

PR91/6

FOR RELEASE ON
JULY 31, 1991

FULL EMPLOYMENT NOT TOP PRIORITY FOR CANADA: STUDY

OTTAWA -- Is unemployment more politically acceptable in Canada today than it used to be? Are Canadians less upset by high jobless rates?

The answer seems to be yes, says political scientist Robert Campbell in a research study released today. The reasons are rooted in Canada's political and economic approach to dealing with unemployment since the Second World War (p. 37*).

In essence, the Trent University professor says governments have never put full employment on the front burner and have relied on "passive" measures, such as unemployment insurance, to cushion the blow of joblessness (p. 38). By depending on market forces to cut unemployment, Canada has seen rising jobless rates in recent decades (pp. xi, 6).

But the study author says there is another route -- make full employment a top political priority and bolster this commitment

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Robert Malcolm Campbell, *The Full-Employment Objective in Canada, 1945-85: Historical, Conceptual, and Comparative Perspectives*, Ottawa, Supply and Services Canada (EC22-175/1991E; $9.50 in Canada and US$11.40 in other countries).

with active measures and cooperative political and economic institutions. This approach has worked in other countries such as Sweden and Japan (p. 40).

By "full employment," the study author means a job for everyone who wants one. He says this was the implicit meaning of the term in 1945. But economists now talk of a different employment goal -- the highest level of employment which can be reached without pushing up inflation. In Canada, some economists have suggested this different goal requires an unemployment rate of 6.5-8 per cent (p. 22).

The Campbell study, prepared for the Economic Council of Canada, analyzes what has happened since the federal government made a commitment to "high and stable" employment in 1945. It also suggests how Canada might proceed if it were to take a more aggressive approach to achieving full employment.

The government's 1945 commitment was never backed up by concrete political and economic institutions and programs to ensure that unemployment was wiped out, says the study (p. 37).

Instead, the government used general economic policies which proved ineffective in maintaining low unemployment and inflation at the same time. To alleviate the pain of being without work, the government relied on the "safety net" of unemployment insurance. As inflation worsened, the goal of full employment lost priority on the policy agenda (pp. 22, 38).

In the end, the author says, the success of a full employment policy is as much a matter of political will as it is a technical economic matter (p. 40).

If Canada were to throw its full weight behind a full employment policy, it would have to develop collaborative programs and organizations at the national and regional levels to win public support and be effective in the market. Representatives of business and labour would have to be included (p. 40).

Countries such as Austria, Sweden, Switzerland, and Japan have followed this general path and have low unemployment rates. They have managed to reach this goal without high inflation while ensuring they are competitive internationally (p. 40).

*Page references are to the study by Professor Robert Campbell: *The Full-Employment Objective in Canada, 1945-85*.

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News Release Communiqué

PR91/7

FOR RELEASE ON
OCTOBER 2, 1991

CANADIAN UNEMPLOYMENT: FROM THE 80s TO THE 90s

OTTAWA -- During the recession of 1981-82, the Canadian unemployment rate jumped to more than 11 per cent of the labour force and did not regain its pre-recession level until 1989. This persistence is puzzling and cause for considerable concern, given the impressive employment growth in the 1983-89 period. Why did it take so long for unemployment to return to its pre-recession level? Will the problem of high and persistent unemployment be repeated in the 1990s, following the current (June 1991) economic downturn? Are there any lessons to be learned from the 1980s to help Canadians deal with the labour market challenges of the 1990s?

The nine papers in this book report the research and analysis of several contributors. In addition, an introductory chapter outlines the dimensions of unemployment in Canada and discusses the policy implications of the research. The volume provides a comprehensive and innovative analysis of the Canadian unemployment problem, and is driven by the observation of two disturbing aspects: the rising trend in the unemployment rate and the

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Canadian Unemployment: Lessons from the 80s and Challenges for the 90s, compendium edited by Surendra Gera, Ottawa, Supply and Services Canada (EC22-177/1991E; $18.75 in Canada and US$22.75 in other countries).

persistence of high unemployment. Among other troubling features of the problem, the authors note rising rates of long-term unemployment, and growing regional, demographic, and industrial disparities in unemployment.

The analyses and conclusions of these authors offer important insights into recent Canadian unemployment experience, and also guidance for the emerging realities of the 1990s. This book will prove enormously valuable to researchers and policymakers concerned with unemployment and labour market adjustment issues.

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The findings of these papers are the personal responsibility of the authors, and, as such, have not been endorsed by the members of the Economic Council of Canada.

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News Release

Communiqué

PR91/8

DO NOT RELEASE BEFORE
11:00 A.M. (EST)
OCTOBER 30, 1991

ECONOMIC COUNCIL STUDIES CONSTITUTIONAL OPTIONS

OTTAWA -- The Economic Council of Canada today released its Twenty-Eighth Annual Review, entitled *A Joint Venture: The Economics of Constitutional Options*. In the Review, the Council examines the functioning of the Canadian economic union and assesses the impact on all regions of possible constitutional changes. Council Chairman Judith Maxwell said, "changes can be made to the political structure while preserving a strong economic union if all the players are committed to the joint venture." She pointed out that, "political changes have economic consequences. Any changes to the Canadian political structure must create the potential to raise productivity and real incomes, and include an agreement on how Canadians will share the proceeds of growth and the risks of economic hardship."

According to the Council, the constitutional debate is taking place in an environment where Canadians are paying more taxes for fewer services because of the high public debt. At the same time, the balance of power between the federal and provincial governments is shifting. Taken together, the provinces are now

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Twenty-Eighth Annual Review, *A Joint Venture: The Economics of Constitutional Options*, Ottawa, Supply and Services Canada (EC21-1/1991E; $12.95 in Canada and US$15.55 in other countries).

much larger than the federal government -- this has not been reflected in our economic decision-making systems.

The federal and provincial governments must coordinate regulations, taxes, and other policies to improve the functioning of the economic union. For the provinces, this involves trading off their scope for independent action against further gains from economic integration. The Council believes that the forum in which the trade-offs are made and in which common standards and objectives are set should be political, not legal. However, a more decentralized federation would require stronger legal and constitutional guarantees. In more radical options for constitutional change, therefore, the provinces may face more economic constraints because more binding decision-making mechanisms would be needed.

The current constitutional debate is in large part the reflection of two visions of sharing -- one which calls for very similar if not uniform policies of sharing throughout the country and another which places greater emphasis on regional preferences and greater identification of Canadians with their regional communities. Addressing this issue is a fundamental step in determining, first, the division of responsibilities between the federal government and the provinces and, second, the need for national standards in public services.

The Council examined five stylized constitutional options to determine their impact on the economic union:

-- the status quo;
-- moderate decentralization;
-- radical decentralization;

-- sovereignty-association[1]; and
-- confederation of regions.

The analysis shows that because the federal government raises far more taxes in the richer provinces than in the poorer ones, decentralization increases the tax load on smaller provincial economies. In some options this effect can be offset by strengthening the equalization system. In a confederation of regions scenario, it is so severe that the Council has rejected the option as impractical.

Radical changes to the constitutional structure -- such as sovereignty-association or a confederation of regions -- hold the potential for dynamic gains from a greater social consensus and willingness to work together to solve economic issues. But these gains cannot be measured and they would have to be very large to compensate for the negative effects of strains on the economic union, transition costs, and the costs of rearranging tax and spending powers.

The Council points out that any significant change in political structure -- even if only one province makes a change -- will involve transition costs that affect all governments. Credit raters would reassess debt burdens, the efficiency of the economic union, exchange rate risks, and other factors. The transition costs from higher risk premiums can be reduced, but not eliminated, if any changes are negotiated calmly and rationally.

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1 Defined as follows: Quebec takes over all tax and spending powers but maintains trade and commercial ties with the rest of Canada.

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News Release Communiqué

PR92/1

FOR RELEASE ON
FEBRUARY 6, 1992

STUDY EXAMINES DIVISION OF POWERS

OTTAWA -- The key constitutional issue of the division of powers between federal and provincial governments is examined in depth in a study released today.

The study by Queen's University economist Robin Boadway was commissioned by the Economic Council of Canada as part of the research effort which led to the Council's Twenty-Eighth Annual Review of the economy, entitled *A Joint Venture*.

It contributed significantly to the Council's analysis of fiscal relations and the division of powers between governments in the Annual Review. But the views in the Boadway study are the author's and do not necessarily represent those of the Council.

"There is no scientific answer to the division of powers issue from an economic perspective," says the author. "Some judgements must be made, and it is clear that economists themselves do not make uniform judgements on this issue."

Robin Boadway, *The Constitutional Division of Powers: An Economic Perspective*, Ottawa, Supply and Services Canada (EC22-178/1992E; $10.95 in Canada and US$13.15 in other countries).

Boadway argues for a division of powers which would give a strong role to the federal government in both the spending and tax fields to ensure equity across the country.

The Council did not take a position in the Annual Review as to whether equity issues were best dealt with by the federal or provincial governments, but simply outlined the financial impact of different ways of allocating powers between governments.

The Queen's University professor examines various economic approaches to assigning responsibilities among federal and provincial governments with efficiency and equity as yardsticks.

He also notes the growing importance of the provinces in taxation and spending in the last 30 years, and says this may have a major impact on the ability of the federal government to encourage a harmonized system of taxation and social programs across the country.

The paper concludes with an examination of some of the financial consequences of different ways of dividing powers between federal and provincial governments, including asymetric arrangements for Quebec alone.

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News Release Communiqué

PR92/2

DO NOT RELEASE BEFORE
10:00 A.M. (EST)
FEBRUARY 12, 1992

CANADIAN LIVING STANDARDS CHALLENGED

OTTAWA -- Living standards in Canada, still among the highest in the world, are heading into troubled waters unless Canadians steer away from the economic shoals.

The Economic Council of Canada says in a policy statement released today that weak productivity growth is slowing down increases in real incomes -- wages minus inflation. It now takes 35 years for Canadians to double real incomes compared to 18 years in the early 1970s.

On the bright side, the Council says, this country is rich in natural resources, a well-educated workforce, and a modern communications and transport system. And governments and industry have started to face up to challenges from foreign competitors.

But changes in world markets, high production costs, and a slower pace of innovation than in key competitors have eroded Canada's position in global trade. These are intertwined with sluggish growth in productivity, or output per person, in threatening future Canadian living standards.

Pulling Together: Productivity, Innovation, and Trade, Ottawa, Supply and Services Canada (EC22-180/1992E; $8.25 in Canada and US$9.90 in other countries).

The Council Statement, entitled *Pulling Together*, declares that a major problem is the slowness of Canadian industry to adjust quickly and efficiently to price shocks and other economic changes.

To cope with this challenge, the Council says that Canadians will have to change their attitudes towards economic change and join together in dealing with the basic issues affecting living standards. And it offers suggestions for the path they should follow.

The Statement is based on in-depth research comparing Canada with its major trading competitors. It throws new light on the productivity blight that has afflicted Canada in recent years.

Canadian exports have been strongly based on natural resource products which this country produces more efficiently than many other nations. But global trade is shifting more towards manufactured -- particularly high-tech -- goods while world use of raw materials is slowing. And real commodity prices -- prices minus inflation -- are declining.

These difficulties are compounded by the fact that natural resource industries have not been able to increase efficiency as quickly as the manufacturing sector, particularly high-tech firms, says the Council.

In manufacturing productivity, Canada once ranked just behind the United States but dropped behind West Germany, France, and Italy in the 1980s. Japan has jumped to 90 per cent of the Canadian level from only 53 per cent 20 years ago.

Some other highlights from *Pulling Together*:

-- Average Canadian manufacturing costs were about 40 per cent more than those in the United States in 1990, a big jump from about 2 per cent in 1980. The main reason was slower productivity growth in the Canadian manufacturing sector with higher Canadian inflation rates a close second. This gap is serious because the United States is Canada's main trading partner.

-- Much of the slowdown in productivity growth is linked to resistance to change in the economy. For instance, almost one-third of the slowdown can be traced to energy price shocks in the last 20 years. Industry adjusted more quickly in Japan and the United States than in Canada. Canadian industry also adjusted less rapidly to exchange rate changes than firms in those two countries.

-- Canada was slower than the United States in adopting technological advances from abroad. Surprisingly, Canadian-owned manufacturing firms stepped up their investment in research and development in the United States in the 1980s.

Among its messages to Canadians, the Council underlines the importance of teamwork between business, labour, and governments. It notes that many Canadians seem to recognize the need for such change and there are encouraging developments in public policy and in the private sector. But there needs to be a broader, more intense effort.

Turning to governments, the Council emphasizes that they should hold to their fiscal stance, develop human resources, and encourage innovation.

The Statement was endorsed by Council members. Three members, Pierre Paquette, Marcel Pepin, and Ken Woods, added comments.

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News Release Communiqué

PR92/3

FOR RELEASE ON
MARCH 17, 1992

NO SYSTEMATIC WAGE DISCRIMINATION FOR COLOUR REASONS: STUDY

OTTAWA -- There is no evidence of systematic wage discrimination against immigrants because of colour, says a study prepared for the Economic Council of Canada.

The study, released today, says that "there is no difference in earnings by origin for the vast majority of countries."

As a result, says study author Arnold deSilva, the "evidence is definitely not consistent with discrimination based on colour."

deSilva, a Council economist, arrived at this conclusion after a detailed comparison of wages of immigrants and Canadian-born persons, taking into account such factors as education, work experience, gender, province of residence, and language proficiency.

The study report, *Earnings of Immigrants: A Comparative Analysis*, is based on research carried out for a Council policy

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Arnold deSilva, *Earnings of Immigrants: A Comparative Analysis*, Ottawa, Supply and Services Canada (EC22-179/1992E; $8.25 in Canada and US$9.90 in other countries).

statement on immigration entitled *New Faces in the Crowd*, released in 1991.

The deSilva study also asks whether immigrants have higher unemployment and welfare levels and lower wages than other Canadians. It uses census information and econometric techniques to arrive at the answers.

deSilva says that immigrants, in general, have a lower unemployment rate than Canadian-born workers. But there are differences between recent immigrants and those who have lived in Canada longer -- recent immigrants have a slightly higher jobless rate than earlier immigrants and people born in Canada.

While there are data problems, the evidence indicates that the percentage of immigrants on welfare is about the same as for Canadian-born persons.

Immigrants who have received all their education in Canada tend to earn just as much as Canadian-born workers.

There is only one area where the study found evidence of considerable discrimination: women are systematically discriminated against, whether they are immigrants or Canadian-born. This shows that the methodology used can demonstrate the existence of systematic discrimination if it is indeed there.

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News Release Communiqué

PR92/4

DO NOT RELEASE BEFORE
10:00 A.M. (EDT)
APRIL 29, 1992

COUNCIL URGES EDUCATION CHANGES

OTTAWA -- The Economic Council of Canada is calling for a more coherent education system linking employers, schools, and governments to boost standards and to produce graduates better-equipped for a more competitive work world.

The Council warns in a policy statement today that if present trends continue Canadian schools will send another one million young people who are functionally illiterate into the workforce during the 1990s.

A major problem, says the Council statement, is that the primary and secondary school system shortchanges the 70 per cent of students who will not go on to college and university.

As a result, almost one quarter of high school graduates tend to avoid reading or simple numerical operations in the everyday world and are poorly equipped for the workforce. In addition, many others drop out before graduation -- the drop-out rate is much higher in Canada than in major competitors such as Japan and Germany.

A Lot to Learn: Education and Training in Canada, Ottawa, Supply and Services Canada (EC22-182/1992E; $6.95 in Canada and US$8.35 in other countries).

The Council also found that the quality of education tends to be higher in the Western provinces than in Central or Eastern Canada. As well, results are mediocre in science and mathematics and there are serious shortcomings in vocational training in schools and in apprenticeship training in firms.

The Council statement, based on two years of research, concludes that an essential first step to a better system is an integrated approach where employers and schools work closely together in preparing young Canadians for the workplace and a lifetime of learning.

Among other findings and proposals:

-- Canada ranks in the middle among 18 industrialized countries in education, labour market, and economic performance.

-- The Atlantic provinces are overstretched financially in trying to maintain their school systems.

-- The education system should ensure all 16-year-olds are literate and numerate by the year 2000; increase the proportion of secondary-school graduates by 3 per cent annually; expand enrolment in science and math programs; and improve the performance of the weaker provinces.

-- Partnerships should be encouraged between employers and schools and formal links should be established between vocational training in secondary schools and apprenticeship training in firms.

-- Good teaching should be encouraged -- the best teachers need greater professional recognition and teacher supply must be more effectively matched with teacher demand.

-- There should be greater freedom of choice in the school system leading to increased accountability by teachers and principals.

-- Administrative costs and duplication of services should be reduced through such steps as sharing transportation and merging school boards.

This is the Economic Council of Canada's final Policy Statement. The Council is in the process of winding down its research activities, including publication of some final studies. The Council is planning to formally close its doors by the end of June 1992.

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News Release Communiqué

PR92/5

FOR RELEASE ON
JUNE 10, 1992

STUDY ON IMPACT OF CONSTITUTIONAL OPTIONS PUBLISHED BY ECONOMIC COUNCIL OF CANADA

OTTAWA -- A study by Andrew Burns which formed part of the basis of the Economic Council of Canada's Twenty-Eighth Annual Review, *A Joint Venture*, was released today.

In his study, Burns describes the model used to evaluate long-run impacts on each region of Canada of the fiscal arrangements associated with four stylized constitutional options presented in the Review, a moderately decentralized federation, an extensively decentralized federation, a confederation of regions, and a Quebec/Canada sovereignty association.

No model, no matter how sophisticated, can capture the full economic impact of comprehensive changes in political structure and division of powers. Accordingly, the study here focuses explicitly on the long-term consequences of changing the complex system of fiscal transfers and taxes which currently link the provinces and the federal government.

Andrew Burns, *Regional Welfare Impacts of Some Alternative Fiscal Arrangements*, Ottawa, Supply and Services Canada (EC22-184/1992E; $12.95 in Canada and US$15.55 in other countries).

The work on this background study was completed after the release of the Review. The results presented are therefore slightly different from the ones published in the Review. In particular, the reader will note some significant changes in the results reported for the moderate decentralization scenario. In all other cases, the results are either unchanged or very similar to those published earlier.

The Burns study is one of more than 40 studies and working papers to be published as a result of the closing of the Council. Although publication activities will continue into August, the doors officially close on June 30.

For more information, contact
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News Release

Communiqué

PR92/6

FOR RELEASE ON
JUNE 18, 1992

ECONOMIC COUNCIL PUBLISHES STUDY ON CANADIAN EXCHANGE RATE

OTTAWA -- There is new input to the public debate about the appropriateness of the role of monetary and exchange rate policies in influencing the cost performance of Canadian traded-goods industries. The Economic Council of Canada has released today a study on *Exchange Rates and International Competitiveness of the Canadian Economy*, by Richard G. Harris.

The study is one of a number commissioned under the Council's project on Competitiveness and Trade Performance, which has explored the poor performance of Canadian industry over the past 20 years. Professor Richard Harris of Simon Fraser University was asked to undertake the study to examine the causes and effects of large and persistent fluctuations in the value of the Canadian dollar.

The wide swings in exchange rates under the floating exchange rate policy have not corrected cost competitiveness problems, but instead have led to sharp swings in exports and imports, disrupting normal trading relationships and causing fluctuations

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Richard G. Harris, *Exchange Rates and International Competitiveness of the Canadian Economy*, Ottawa, Supply and Services Canada (EC22-185/1992E; $9.95 in Canada and US$11.95 in other countries).

in output and employment in the export and import-competing sectors. Professor Harris cautions it is too early to dismiss the possibility that the current overvaluation of the Canadian dollar will have permanent adverse consequences for Canada's trade performance.

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News Release Communiqué

PR92/7

FOR RELEASE ON
JUNE 25, 1992

ECONOMIC COUNCIL PUBLISHES IMPORTANT REPORT ON POVERTY

OTTAWA -- One in three Canadians can expect to be poor at some time during their working lives. So states a report entitled *The New Face of Poverty: Income Security Needs of Canadian Families*, which was released today by the Economic Council of Canada.

The report provides a new perspective on poverty among working-age people and their families. A new database developed by the Economic Council of Canada and Statistics Canada enabled researchers to track the entries into and exits from poverty of families over a five-year period, thereby providing information on the volatility of incomes and the duration of each spell of poverty. A central theme to emerge from this analysis is that the needs of the poorer population are highly diverse and therefore require a set of public programs that are flexible enough to respond to this diversity.

A major achievement of Canada's social programs has been to increase income security for the elderly, and to reduce the depth of poverty among working-age families says the report. However, since the mid 1970s, there has been almost no improvement in the

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The New Face of Poverty: Income Security Needs of Canadian Families, Ottawa, Supply and Services Canada (EC22-186/1992E; $9.95 in Canada and US$11.95 in other countries).

proportion of Canadian families that are poor. Even more worrying, poverty could worsen during the 1990s, due to an increase in social and economic stresses that influence the likelihood of poverty, such as family breakdowns and the difficulties experienced by workers in adjusting to changing job requirements.

The research indicates that almost all lower income Canadian families have some labour force linkages, but that many of their needs are not being met by current income-security programs. Many people develop a dependency on Unemployment Insurance. At the same time, social assistance programs do not provide adequate incentives to work, nor sufficient opportunities for them to upgrade their work skills.

This analysis leads to suggestions for a major restructuring of Canada's income-security programs for the working-age population. Fundamental to such a change would be an increased focus on employment transitions. This would enable governments to increase the efficiency of their efforts to reduce poverty and to help Canadians become more self-reliant in the face of a rapidly changing economy.

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Council publications are available through commercial booksellers in major Canadian cities or from the Canada Communication Group -- Publishing (819) 956-4802.

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ECONOMIC COUNCIL PUBLISHES PAPER ON CONTROLLING DRUG EXPENDITURE IN CANADA

OTTAWA -- A report which raises a broad range of issues concerning the management of drug programs was released today by the Economic Council of Canada. It builds on research its author, Dr. Paul Gorecki, carried out for the Pharmaceutical Inquiry of Ontario. Support for this work was also received from the Ontario Ministry of Health.

Effective and efficient program management and delivery are of paramount importance at the present time. Health-care budgets have expanded rapidly, and drugs are no exception; indeed their rate of growth has exceeded that of the overall health-care budget during a time when governments are faced with fiscal restraint. It is hoped that this study will provide a greater appreciation and understanding of the forces shaping provincial drug programs and thus will improve policy making.

The monograph is one of a number of monographs and working papers to be produced over the next few months, following the closing of the Council at the end of June. So that the valuable

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Paul K. Gorecki, *Controlling Drug Expenditure in Canada: The Ontario Experience*, Ottawa, Supply and Services Canada (EC22-183/1992E; $18.95 in Canada and US$22.75 in other countries).

research will not be lost to the Canadian public, a number of projects have been documented and will be available through the Canada Communication Group in Ottawa.

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The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the Economic Council of Canada or the Ontario Ministry of Health.

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